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**PROBLEMS OF WAR AND OF RECONSTRUCTION**

EDITED BY  
**FRANCIS G. WICKWARE**

**GOVERNMENT ORGANIZATION  
IN WAR TIME AND AFTER**



PROBLEMS OF WAR AND OF RECONSTRUCTION

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# GOVERNMENT ORGANIZATION IN WAR TIME AND AFTER

A SURVEY OF THE FEDERAL CIVIL AGENCIES  
CREATED FOR THE PROSECUTION OF THE WAR

BY

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WITH AN INTRODUCTION BY

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THIRD ASSISTANT SECRETARY OF WAR



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## PREFACE

A feature distinguishing the Great War from all other wars in which the United States has been engaged is that it necessitated the mobilization of practically the entire resources of the country for its successful prosecution. By "mobilization" is meant that the National Government was compelled, not merely to draft into its service all the manhood of the nation suitable for military operations, but to call upon, take over, direct, or control almost every element of the life of the people, industrial, commercial, scientific, and educational, to the end that all these activities might be brought to bear directly upon the prosecution of the war. To effect this mobilization the Congress had to pass a great body of special legislation extending the powers of the Government over these subjects and creating or making provision for the creation of a large number of special services through which these powers might be exercised.

The present volume has for its purpose to attempt a methodical statement and description of these special war agencies and their operations. It has been necessary to restrict our attention to those agencies which represent distinct services specially created for the handling of matters connected with the prosecution of the war or the meeting of conditions engendered by the war. Only in an incidental way has an effort been made to consider the work done by the regular Departments and services of the Government. No account is thus given of the activities of the two most important war services of all, the War and Navy Departments. To have attempted such an account would have required another volume longer than the present one.

Even with these limitations the task of presenting a connected account of the manner in which the National

## PREFACE

Government met the tremendously complicated problem of working out an effective organization for the administration of the new duties thrown upon it has been no slight one. Each service or group of services considered has presented features which alone would require a volume equal to the present one for their adequate treatment. What value the present work may have is thus that of furnishing a general survey or picture of the whole problem of organization for the prosecution of the war and the manner in which this problem was met by the Government.

That this account might have the greatest value the attempt has been made to resolve the problem into its constituent elements, to state the nature of each and specifically the manner in, and organs through, which it was handled. The general procedure followed has been that of giving, in respect to each, first, an analysis of the nature of the problem and the conditions to be met; second, an account of the steps taken by the Government in meeting these conditions; and, finally, a statement of the conditions at the close of the war and the alternative lines of action open in respect to them.

In describing the action of the Government the policy has been pursued of quoting largely from laws, executive orders, reports, and other official documents, to the end that the reader may get this authoritative statement of the character and purposes of the action taken. Although the treatment has been largely descriptive, failures and mistakes, as well as accomplishments, have been indicated. Although these errors of omission and commission were many, and constant changes in organization had to be made to correct them, it cannot be stated too emphatically that on the whole the Government met a situation of unexampled difficulty with a success that can fairly challenge comparison with the manner in which the same situation was met by any other country.

W. F. WILLOUGHBY.

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## INTRODUCTION

When I laid down the proof sheets of Mr. Willoughby's survey of our war-time administrative organization, I had, mingled with more agreeable emotions, that lost feeling which comes from a half-remembered quotation. Someone, somewhere, in reference to a wholly different matter, had put in a sentence or so the impression of the picture. Finally I found the sentences in Dr. E. E. Slosson's *Great American Universities*. It was a comment upon the organization of one of our educational institutions and reads as follows:

It is like the British Constitution; it ought not to work, but it does. It is a complex congeries of provinces, allies, crown colonies, protectorates, residencies, and native states. If a herald with tabard and trumpet were to call out all of the president's official positions, the list would sound like the heralding of a Holy Roman Emperor.

This, it seems to me, gives a pretty fair sketch of the whole vista. For our war work we created councils and boards, commissions and corporations, administrations and gentlemen's agreements, machinery for commandeering and for conciliation. The reference has the further merit of indicating the range and variety of the responsibilities of the President of the United States during the past two years.

The first days of the war were ones of whirling confusion, colored by glowing forecasts. Then followed months of experimentation by trial and error, of hope deferred by long delays, of well meant but none the less embarrassing internal rivalries, of sudden spurts like that which followed the organization of the War Industries Board. Later came the days of the autumn of 1918, when the whole great machine was throbbing rhythmic-

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ally and steadily with only a minor "knock" here and there—a sure indication to the watchful enemy, who had had more than a taste of what the machine could produce, that the game was up—and finally the armistice and the order to reverse the engines.

To one who was in Washington from the first the changes from the wild hurryings and shoutings of April, 1917, to the grim but ordered work of the tired men and women in November, 1918, came so gradually as to be unnoticeable; the men who were fighting our battles or preparing to fight them had little, if any, chance to know how things were going at the capital; and the whole body of citizens who paid the bills and suffered most acutely of all from our growing pains were almost equally in the dark.

A picture of the various movements in perspective is therefore of real interest. I have seen models of mines made in glass which show in three dimensions the various shafts and chambers and connecting galleries. Some such device might help us to get the picture at any given moment, but it was above all a changing scene, and unless some one can invent a kaleidoscope in three dimensions, we shall have to seek our picture in the printed page.

Mr. Willoughby's book is more than a record and comment upon the happenings of the last two years. It is a valuable collection of state papers. We Americans have a way of referring to such documents with the greatest assurance, but we are not so certain to keep the provisions fresh in our memories, and in some cases perhaps we have never read them at all. For that reason the reading or rereading of documents like the Food and Fuel Control Act and the President's order for the reorganization of the War Industries Board will be a very good thing for us.

It is a striking commentary upon the dislocations that come in the train of modern warfare that so little of



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what had to be done seemed to fit into the framework of the existing administrative organisms. Here and there a Government bureau with an ambitious and competent head seized the chance to develop its work to war-time size, but in general the established services went their accustomed ways. If we except the greater part of the activities in the Navy and the problems of military training and strategy, we find almost uniformly that some entirely new machine was built to meet the war-time need. Often three or four successive machines were set up, only to be scrapped, before we found one that would function properly. This does not imply a general condemnation of our peace-time governmental organization. It is rather a commentary upon the desperate seriousness of going to war in these days.

At any rate, the solution of our problems — and the results show that we found the solution — was due to our finding to our hand individual men rather than institutions, men not only to fight our battles but to mobilize our strength. Just as our young men by the millions took their places in the line when the bugle blew, older men by the tens of thousands left their private affairs to get along as best they might and, regardless of political affiliations or personal convenience, found place for themselves in the administrative army. And they were ably seconded by the women. Hundreds of men in key positions have gladly borne witness to the share that their secretaries and their other women associates played in bringing about the needed results.

As the leaders forged to the front, they either fashioned the administrative machinery they needed as they went along, or they modified the existing organization beyond the recognition of the authors of its being. The Council of National Defense in particular, like the hen in the farmyard, had the experience of having many of its fledglings turn out to be web-footed ingrates, which at the first opportunity swam out beyond recall. But,

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by the same token, the Council deserves all credit for having hatched the eggs in those early days of confusion and turmoil.

Sometimes the new or modified machinery and the combinations of existing agencies were later legalized by acts of Congress or otherwise, but whether they were or not made little difference to the busy men who were engrossed in the fascinating job of getting things done. The enactment of the Overman bill was as much a recognition of the existing state of affairs as a provision for elasticity in the future.

There was, as Mr. Willoughby points out, one field in which the existing machinery functioned from the first, and that was in finance. This fact, coupled with our immense national wealth and the generous enthusiasm of the people and of their representatives in Congress, meant that no one was ever hampered for a moment by what is usually the limiting factor in human enterprise, the lack of immediately available funds. Even our mistakes, many and costly though they inevitably were, since speed was of the very essence of our endeavor and nearly everyone was working in an unfamiliar field, were promptly and unquestioningly paid for, and we pressed forward without hesitation to new and sounder solutions.

It is difficult to summarize in a matter of such complexity, but in general five methods of achieving results seem to stand out, both as of particular interest in our study of what has happened, and of significance in looking toward the future: (1) the exercise of direct authority, as in our commandeering of property and supplies; (2) the processes of negotiation and adjustment, as in nearly all our labor relations; (3) the indirect control of private enterprise by licensing, as in many of the activities of the War Industries Board; (4) the subsidiary corporations, like the Emergency Fleet Corporation, organized for a specific purpose, with initial capital

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voted by Congress; (5) and most interesting of all, the capitalization of the national goodwill by the processes of education, most successfully achieved by the Food Administration.

The reader whose interest has been aroused in any particular undertaking and who would like to know more about it on the spot must bear with the author for his prompt passing on to the next item in the long list of administrative enterprises, and must be equally forbearing when he misses any discussion of so great an administrative experiment as the operation of the Selective Service Act or the coördination of our varied welfare machinery; for this book is but one of a series, and the author, besides being limited to the confines of a single volume, must needs leave much to his coworkers.

If I may in closing offer a suggestion to the reader who has been conscientious enough to begin with the Introduction and to get thus far in it, it is to read the last chapter first, so that he may get some idea of the range and complexity of the whole picture. The author does us too much honor in assuming that we have already in our minds a general preparation for what he has to say. Then, as the reader takes up the chapters in their order, he can better see the place of each in the whole scheme and will be ready to reread the author's conclusions to his own best profit.

FREDERICK P. KEPPEL.



**GOVERNMENT ORGANIZATION  
IN WAR TIME AND AFTER**





# CHAPTER I

## THE PROBLEM OF GENERAL ADMINISTRATION

Analysis of the problem — Its importance and immediate urgency — Elements in the mobilization of facilities and resources — Need for an organ of general administration — The President as administrator-in-chief — His administrative powers derived from Congress — The Overman Act — Council of National Defense — Its purpose as originally conceived — Its composition and functions as prescribed by the Act of March 26, 1916 — Its Advisory Commission — Organization of the Council and Advisory Commission — Its defects — In the formulation of programme — In the correlation of activities — In administrative personnel — In the interpretation of functions — In committee organization — The real service of the Council — Its gradual decline in importance — Its activities as a reconstruction agency.

Among the problems of organization for the prosecution of the war none was of greater importance, or of more immediate urgency, than that of general administration. This problem consisted in the perfection of means by which a general programme of operation might be formulated, the several features of this programme allotted to the services best fitted for their performance, and measures of control established to insure that the programme as thus formulated and assigned should be in fact efficiently carried out. The need for the adoption of such a work programme and the creation of an agency or agencies through which the organization and activities of the Government might be correlated, conflicts of jurisdiction avoided or adjusted as soon as they arose, duplication of organization, plant, and activities eliminated or reduced to a minimum, and all the several services of the Government integrated into one harmonious piece of administrative machinery is great in

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times of peace. Upon the entrance of the United States into war it became imperative.

This was due not merely to the magnitude and complexity of the task that was thrown upon the Government, but also to the unusual conditions under which the war had to be fought. These conditions consisted in the fact that the resources of the country in both men and material were utterly inadequate to meet the demands made upon them. There was a shortage of man power, or at least of man power of the character required, of transportation facilities, both on land and water, of fuel, food, and almost every commodity required to meet the munition, equipment, and other needs of our military and naval forces. This shortage necessitated not only the taking of immediate steps for removing it, but the determination of the use to which should be put such resources as were available and the conditions under which they should be acquired.

Under these conditions it became necessary that the Government should at once undertake to do the following things: (1) formulate as definitely as circumstances would permit its military programme; (2) determine the total requirements in respect to all classes of men and material called for by such programme; (3) ascertain the extent to which these requirements could be met under existing conditions; (4) take steps to insure the creation of new facilities for meeting any shortage thus revealed; (5) determine the use to which such facilities and resources as were available should be put; and (6) fix the prices or compensation rates that should be paid for such services and supplies.

We have given this brief analysis of the purely administrative phase of the problem of the conduct of the war in order to make clear the need for the creation of

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the various war agencies which will hereafter be described and the necessity for some organ of general administration which, standing outside of, and in a way superior to, the operating services, properly speaking, of the Government, should have as its function to see that these several steps were taken. A moment's reflection will show the necessity for some such organ of general direction, supervision, and control. If the separate services were left free to act according to their best judgment, each would naturally consider its own interests. There would be no assurance that they would be working to a common programme. They would compete with each other in a market inadequate to meet all their needs, with the result that prices would advance almost without limit, and there would be no assurance that services and supplies would be secured by those departments most urgently requiring them. Duplication of organization and work would occur on a large scale. And many things would remain undone by reason of the fact that they did not fall within the jurisdiction of the Government services as established prior to the war.

At the outbreak of the war the National Government was wholly without any such organ of general administration except in so far as the President and his Cabinet constituted such an organ. Though constitutionally the President's powers are exclusively executive as distinguished from administrative, the President has nevertheless become in effect the administrator-in-chief of the Government. This has resulted partly as a logical consequence of his duty as Chief Executive to see that the laws are duly enforced, partly in consequence of the powers possessed by him to nominate and, with the con-

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sent of the Senate, to appoint the chief administrative officers of the Government and his unrestricted power to dismiss all such officers, but chiefly from the fact that Congress has by statute conferred upon him administrative powers of the most comprehensive character. Especially has this policy been pursued by Congress since the entrance of the United States into the war. In almost no case did Congress attempt itself to prescribe the character of organization or the administrative methods that should be employed in enforcing the large volume of war legislation it enacted. Almost invariably it contented itself with providing that the President should take such action as in his opinion was wise to see that the provisions of those acts were properly carried out.

By an Act approved May 20, 1918,<sup>1</sup> it went much further even than this, and conferred a general power upon the President during the war and for six months after its termination to effect such a coördination or consolidation of existing bureaus, agencies, and offices of the Government as in his opinion would lead to a more efficient prosecution of the war. This very important Act, which is known as the Overmân Act from the name of its author, reads as follows:

*Be it enacted, etc.,* That for the national security and defense, for the successful prosecution of the war, for the support and maintenance of the Army and Navy, for the better utilization of resources and industries, and for the more effective exercise and more efficient administration by the President of his powers as Commander-in-Chief of the land and naval forces the President is hereby authorized to make such redistribution of functions among executive agencies as he may deem necessary, including any functions, duties, and

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<sup>1</sup> An Act Authorizing the President to coördinate or consolidate executive bureaus, agencies, and offices, and for other purposes, in the interest of economy and the more efficient concentration of the Government.



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powers hitherto by law conferred upon any executive department, commission, bureau, agency, office, or officer, in such manner as in his judgment shall seem best fitted to carry out the purposes of this Act, and to this end is authorized to make such regulations and to issue such orders as he may deem necessary, which regulations and orders shall be in writing and shall be filed with the head of the department affected and constitute a public record: *Provided*, That this Act shall remain in force during the continuance of the present war and for six months after the termination of the war by the proclamation of the treaty of peace, or at such earlier time as the President may designate: *Provided further*, That the termination of this Act shall not affect any act done or any right or obligation accruing or accrued pursuant to this Act and during the time that this Act is in force: *Provided further*, That the authority by this Act granted shall be exercised only in matters relating to the conduct of the present war.

SEC. 2. That in carrying out the purposes of this Act the President is authorized to utilize, coördinate, or consolidate any executive or administrative commissions, bureaus, agencies, offices, or officers now existing by law, to transfer any duties or powers from one existing department, commission, bureau, agency, office, or officer to another, to transfer the personnel thereof or any part of it either by detail or assignment, together with the whole or any part of the records and public property belonging thereto.

SEC. 3. That the President is further authorized to establish an executive agency which may exercise such jurisdiction and control over the production of aeroplanes, aeroplane engines, and aircraft equipment as in his judgment may be advantageous; and, further, to transfer to such agency, for its use, all or any moneys heretofore appropriated for the production of aeroplanes, aeroplane engines, and aircraft equipment.

SEC. 4. That for the purpose of carrying out the provisions of this Act, any moneys heretofore and hereafter appropriated for the use of any executive department, commission, bureau, agency, office, or officer shall be expended only for the purposes for which it was appropriated under the direction of such other agency as may be directed by the President hereunder to perform and execute said function.

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SEC. 5. That should the President, in redistributing the functions among the executive agencies as provided in this Act, conclude that any bureau should be abolished and it or their duties and functions conferred upon some other department or bureau or eliminated entirely, he shall report his conclusions to Congress with such recommendations as he may deem proper.

SEC. 6. That all laws or parts of laws conflicting with the provisions of this Act are to the extent of such conflict suspended while this Act is in force.

Upon the termination of this Act all executive or administrative agencies, departments, commissions, bureaus, offices, or officers shall exercise the same functions, duties, and powers as heretofore or as hereafter by law may be provided, any authorization of the President under this Act to the contrary notwithstanding.

In thus vesting large powers in the President Congress pursued the correct policy of concentrating administrative responsibility. If one considers the powers thus conferred upon the President in connection with the powers already possessed by him, as above set forth, and his special powers in time of war as Commander-in-Chief of the armed forces of the Nation, it will be seen how largely administrative power and responsibility were vested in the President for the doing of all the things necessary for the successful prosecution of the war and the meeting of the many problems growing out of the conflict.

In respect to the scope of the provisions of the Overman Act much popular misconception has existed. The opinion seems to have prevailed that under it the President could make such a reorganization of the administrative services as he saw fit, and not a little criticism has been directed against him for his failure to make a larger use of his supposed powers. In point of fact a reading of the Act shows that it expressly provided that

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“the authority by this Act granted shall be exercised only in matters relating to the conduct of the present war.” The President thus had no authority to effect that general regrouping of services departmentally and redistribution of duties among the several services of which there is so much need. If exception be made of the reorganization of the aircraft production services, hereafter described, which was expressly authorized by the Act, no action of great importance was taken by the President under the provisions of the Overman Act.

Although possessing adequate powers to exercise that general direction, supervision, and control over the formulation and execution of work programmes which has been shown to be necessary, the President, it is evident, could not personally handle more than a small fraction of the work that had to be done. He was consequently compelled to bring into existence the large number of special war agencies which are described in the following pages. Before entering upon a description of these special services, however, an account should first be given of the agencies that were established to handle the more general problems of administration to the end that unity of policy, programme, and operation might be secured.

Prior to the outbreak of the Great War recognition was had of the need for some organ that should have as its function the formation of a general war programme and the correlation of the activities of the several branches of the Government for its execution should the United States ever be called upon to engage in a conflict that would measurably tax its resources. To this end there was drafted as early as 1912 a bill providing for the creation of a body to be known as the Council of National Defense. This bill, which had the strong en-

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dorsement of President Taft, the Secretaries of War and the Navy, and the Chief of Staff of the Army, had as its principle the creation of a body through which the programme and activities of Congress and the Executive might be correlated for purposes of war preparation and prosecution. It thus provided for a body composed of *ex officio* members representing the two Houses of Congress, the President, and the War and Navy Departments. The chief function of this body was to insure that a general programme in respect to preparedness and the prosecution of war, should that eventuality occur, should be adopted that would secure the common support of all branches of the Government. Particularly was it designed to insure that the War and Navy Departments should not work at cross-purposes such as had been more or less in evidence during our war with Spain.

Mention is made of this proposal, although it failed of enactment, since it illustrates a feeling on the part of Congress that it should participate directly in the formulation of preparedness and war programmes which was strongly in evidence during the first few months after our entrance into the war. This was manifested by the introduction of bills calling for the creation of a joint Committee on the Conduct of the War, a War Cabinet, special Departments of Munitions, Air Service, and the like. All of these proposals were successfully opposed by President Wilson on the ground that they tended to lessen his authority as head of the administration, to divide responsibility, and were unnecessary.

As the possibility of the United States' being drawn into the war became progressively more apparent, this idea of a Council of National Defense was revived in a modified form and provision was made for its establish-

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ment by a clause inserted in the Army Appropriation Act of March 29, 1916. This Act provided for the creation of a body to be known as the Council of National Defense to consist of the six Secretaries of War, the Navy, the Interior, Agriculture, Commerce, and Labor. The function of this body was stated in exceedingly broad terms to be "the coördination of industries and resources for the national security and welfare," and its specific duties, in performing this function, to be: to supervise and direct investigations and make recommendations to the President and the heads of the executive Departments regarding the location of railways with reference to the frontier of the United States so as to render possible expedition in concentration of troops and supplies to points of defense; the coördination of military, industrial, and commercial purposes in the location of extensive highways and branch lines of railroads; the utilization of waterways; the mobilization of military and naval resources for defense; the increase of domestic production of articles and materials essential to the support of armies and of the people during the interruption of foreign commerce; the development of sea-going transportation; the securing of data as to the amounts, location, method and means of production, and availability of military supplies; the giving of information to producers and manufacturers as to the class of supplies needed by the military and other services of the Government and the requirements relating thereto; and the creation of relations which would render possible in times of need the immediate concentration and utilization of the resources of the Nation.

For the performance of these duties the Council was empowered to employ a Director, experts and other necessary assistance, to organize subordinate bodies, and



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to create committees of specially qualified persons to serve without compensation, whose operations, however, should be directed and supervised by the Council. The Act made an immediate appropriation of \$200,000 for the support of the Council and its work. Since then additional appropriations have been made in subsequent appropriation acts.

In addition to creating the Council proper the Act also made provision for the establishment of an "Advisory Commission to the Council," to consist of seven persons to be appointed by the President upon the recommendation of the Council each of whom, it was specified, should be specially qualified in some line which would make his services of value to the Council.

It will be seen from the foregoing that this body, although bearing the same name as the Council previously proposed, was of a fundamentally different character from that body, as regards both its composition and its function. It represented, in the first place, an abandonment of the idea of bringing into existence a body composed of representatives of Congress and the Executive, and having as its prime purpose the correlation of the activities of those two branches in the formulation of a comprehensive war preparedness and prosecution programme. The Council as established was wholly an organ of the administrative branch of the Government, and its function was exclusively that of acting as an aid to the Executive in taking steps for the protection of the public interests. In the second place, it departed from the earlier proposal in the greater emphasis that was given to the work of the civil departments of the Government and the need for organizing the general industrial resources of the country for war purposes. This resulted from the special character of

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the late conflict, to which reference has already been made. Congress also was undoubtedly influenced by the need, which had developed in both Great Britain and France, for the creation of a smaller and more select body of high officials than that furnished by the Cabinet, which should concern itself exclusively with war matters and act in the capacity of a war cabinet.

A feature of the Council of National Defense to be especially noted is that its powers were exclusively of an advisory character. It was given no administrative authority of any description; hence it had no legal authority to issue orders which would become immediately operative. It was thus what is technically known as a staff agency rather than an administrative service. This point has been specially mentioned since much popular misconception has existed regarding the scope of the powers and duties of this body and its subordinate agency, the Advisory Commission, and even those agencies themselves at times seemed to fail to appreciate the limitations under which they were working and sought in effect to take to themselves duties of an administrative character.

Although the Act authorizing the establishment of the Council and the Advisory Commission was approved on August 29, 1916, it was not until October 11 of that year that the two bodies were formally organized. The Secretary of War was designated as Chairman of the Council, and Walter S. Gifford, Statistician of the American Telephone and Telegraph Company, was appointed Director. The Advisory Commission was constituted by the appointment of the following members: Daniel Willard, President of the Baltimore and Ohio Railroad Company; Hollis Godfrey, President of the Drexel Institute of Philadelphia; Howard E. Coffin, Vice-Presi-

dent of the Hudson Motor Company, of Detroit; Dr. Franklin H. Martin, President of the General American College of Surgeons, of Chicago; Bernard M. Baruch, a banker of New York; Julius Rosenwald, President of Sears, Roebuck and Company, of Chicago; and Samuel Gompers, President of the American Federation of Labor, of Washington.

For the performance of their duties both the Council and the Advisory Commission organized a large number of divisions, sections, and committees, the memberships of which were largely composed of prominent persons who placed their services at the disposal of the Council without compensation. This system of committees, boards, and sections underwent constant change in regard to both their character and their personnel.

There can be little question that the organization of the Council and the Advisory Commission as thus effected was open to many criticisms.

In the first place it does not appear that the Council ever appreciated the possibilities it possessed as a Council to formulate general plans regarding the mobilization of the industrial resources of the Nation for war purposes. There is no evidence that it applied itself to the task of formulating a consistent programme even for its own activities. It authorized or permitted the organization of scores of committees and sections without seeking definitely to define their jurisdictions and duties, and as a body paid little attention to their operations. The organization units of the Council, in a word, did about as they pleased. Those committees and sections which had strong and aggressive men as their chairmen undertook work on an ambitious scale and often without due regard to the fact that the only powers possessed by them were of an investigatory and

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advisory character. Many committees did little or nothing and only nominally maintained their existence.

In the second place there was almost complete failure properly to correlate the organization and activities of the Council and its Advisory Commission. The latter proceeded to act almost as an independent body, or at least as one whose functions and powers were coördinate with those of the Council. The result was the establishment of two sets of subordinate committees and sections which in great part concerned themselves with the same matters, duplicated each other's work, or at least prevented a proper concentration of authority and responsibility. No adequate means were provided by which one committee or section might know what the other committees or sections were doing or planning to do.

Third, the Council made little or no attempt to build up a strong administrative organization manned by a permanent personnel specially selected for the duties they were to perform. Instead it adopted the policy of attempting to handle its work through committees composed in large part of persons offering their services gratuitously and often giving only a part of their time to their work.

Fourth, some of these committees, as has already been indicated, tended to ignore the fact that they had only investigatory and recommendatory powers and sought to take action that was more or less of an administrative character. The exercise of such powers was either directed or acquiesced in by the Council and the President to such an extent that for a time the purchasing services of the War Department were compelled to act upon the recommendations of certain committees or boards in respect to the letting of contracts, the fixing of the prices

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to be paid, and other purchasing conditions. This led to friction with the War Department and at times to delay in the placing of orders. On the other hand, there can be no doubt that these committees in many cases greatly facilitated the placing of orders and secured terms much more favorable to the Government than the latter would otherwise have secured.

Finally, the great mistake was made, in organizing committees and subcommittees to consider the problem of securing materials and supplies needed by the Government for the prosecution of the war, of making these committees agencies for representing the Government in its relations with the producers and manufacturers of the commodities instead of agencies for the representation of such producers. As the members of these committees were in many cases the persons to whom the Government had to look for the supplies needed, a situation was brought about in which the committees had to recommend the placing of contracts with their own members. This is a subject which will be more fully considered in connection with our account of the War Industries Board as an agency for the mobilization of the industries of the country. It need only be stated here that this error was in time appreciated and the committees reconstituted upon the other basis.

In thus criticizing the Council for its failure to work out for itself a consistent and carefully planned programme and to provide for a proper organization for its execution, it is not intended to convey the impression that the work of the Council was without value. Certain of its boards and committees, such as the Committee on Labor, Committee on Women's Defense Work, General Munitions Board, Munition Standards Board, Gen-



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eral Medical Board, and the Committees on Transportation and Supplies, of which there were a large number, did exceedingly valuable work. The work of a number of these bodies will be considered when we come to describe the action taken by the Government in mobilizing the industries, in assuming control over the transportation agencies of the country, and in meeting the problems of labor created by the war.

After all, however, the chief service rendered by the Council, and particularly by its Advisory Commission, was that of furnishing the means through which the officers of the administrative Departments could get into immediate touch with the industrial interests of the country. As the Director of the Council said, in his annual report submitted June 30, 1917:

It is somewhat difficult to place on paper an adequate statement of the work of an organization like the Council, because so much of its most important work is accomplished through the functions of adjustment. The Council and its agencies have sought to serve as a channel through which the best professional and industrial intelligence of the country could make itself most effectively available to the government departments. Necessarily much of the accomplishment implied in such a function must be carried through by personal contact, and when the personal equation is involved it is manifestly difficult to picture results in black and white.

It should also be borne in mind that at the time the Council was created the Government had none of the special agencies, such as the Food, Fuel, and Railroad Administrations, the War Industries and War Trade Boards, with which to handle special war problems. The Council furnished the only body fitted to handle these questions pending the establishment of such agencies, and it rendered valuable assistance in doing so. In a number of instances, notably in the case of the War

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Industries Board and the Commercial Economy Committee, the units originally established by the Council of National Defense were taken over by the President and made independent agencies or integral parts of such agencies.

With the establishment of these special agencies the field of activities of the Council became steadily more restricted until at the termination of hostilities it was playing a comparatively unimportant part in the general organization for the prosecution of war. In view of this the Council turned its attention to the consideration of the problems of reconstruction to be met after the war. To this end it made two important changes in its organization. By the amalgamation of the State Councils Section and the Woman's Committee, both of which maintained important field organizations, it created a strong unified field service known as the Field Division of the Council. Grosvenor B. Clarkson, Secretary, and later Director, of the Council, assumed immediate charge of the Division as a whole.

Of more immediate importance in respect to the work of reconstruction was the creation by the Council in February, 1919, of a new service known as the Reconstruction and Research Division of the Council. This Division, which was placed in charge of Herbert N. Shenton, of Columbia University, has as its prime purpose to act as a clearing house for information regarding reconstruction conditions and problems and the action being taken by the several branches of the Federal Government, the state governments, and other agencies for meeting these conditions and problems. In a statement given to the public through the *Official Bulletin* of February 4, 1919, the work of the Division was described as follows:

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The prime intention of this research organization has not been to determine policies. It has sought to analyze the problems of reconstruction and readjustment, to find out what Congress and Federal and civic agencies are doing to solve them, and to digest the opinion of experts and responsible leaders of thought concerning the activities of the Federal agencies particularly. Recently a similar study of the activities of state agencies has been started. Through the Field Division of the Council, guiding and coördinating the work of the 184,000 units of the state, county, community, and municipal councils of defense, definite information has been gathered concerning the county and community reconstruction movements.

The first problem of the Council's reconstruction staff was to reach a working definition of what has been more or less vaguely known as reconstruction and readjustment, and to find out what the world was thinking, saying, and writing about the question. Clipping services were installed, and news items, editorials, signed articles, pamphlets and books collected, digested, reviewed, indexed and cross-indexed. Readjustment problems confronting both the people in the nation as a whole and in minor groups were studied. The transactions of the more important conventions of organized reconstruction movements in this country and abroad have been carefully analyzed. Annotated bibliographies have been compiled. Memoranda have been prepared by O. M. W. Sprague, professor of finance and banking at Harvard, and other staff members, not only as constructive suggestions, but to clarify the information gathered by the various Federal agencies from many different sources. Conferences are regularly held with these agencies.

Meanwhile another question pressed for answer. What readjustments would come first? It early became evident that immediately upon the signing of the armistice there would follow the problem of demobilization and conversion of war industries. Studies have been made dealing with demobilization and unemployment. The functions of the official agencies created for war and which have had to be discontinued, modified or transferred elsewhere have been carefully analyzed and charted. A concrete result of these studies has been the co-operation of the Field Division of the Council with the United

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States Employment Service. As a result the Council has been instrumental in forming, through the nation-wide council of defense system, more than 1,800 employment bureaus for returning soldiers and sailors since December 3.

The Reconstruction Research Division will continue to record the adjustments in trade and shipping made by the War Trade Board, Shipping Board, Railroad Administration, and other agencies created to exercise control during the war. Complete files of the orders, releases, and other official documents concerning these agencies are being kept, and careful records made of their development, organization and discontinuance.

Early in the fall the reconstruction and readjustment work of the various Federal agencies was recorded, mapped, and carefully charted. The material was circulated freely among the Federal agencies as a basis for closer-knit coördination of their activities and with the obvious result of preventing overlapping effort. Almost any one of the reconstruction problems requires special action on the part of every Federal agency. Demobilization, for example, has required the efforts of the Treasury, War, Interior, Agriculture and Labor Departments, and of the Shipping Board, Railroad Administration and Council of National Defense. The charting of these activities will be continued and expanded.

Information has been and will continue to be assembled concerning the readjustment activities of private agencies, national and international, and the official activities of more than a score of foreign countries. With the opening of the state legislatures, a service is being established whereby these reconstruction activities are to be tabulated in forms that will doubtless be of service to other legislatures.

By noon of every day there is in the hands of Director Clarkson a daily digest of reconstruction news. This digest is at once circulated to all official departments and persons concerned.

We have reproduced thus fully the statement regarding the work and plans of the Reconstruction and Research Division of the Council since it constitutes the only general agency that has been established by the Federal Government for dealing with the problems of

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reconstruction. The Council has requested from Congress appropriations to enable it to continue its activities in this field during the fiscal year 1920.

To sum up, it may be stated that, notwithstanding the particular achievements which it may have to its credit, the Council failed almost completely to perform the primary function for which it was created. Immediately prior to and following the entrance of the United States into the war, there was a crying need for some organ that, itself having no administrative duties to perform, could devote itself to the work of studying conditions and problems and the making of recommendations that would ensure that all branches of the Government would work in harmony for the consistent promotion of a uniform programme of action. The Council was admirably constituted and its powers and duties ably defined for the performance of this work. From the outset, however, the Council almost wholly ignored this great opportunity to make of itself a central, coördinating staff, agency. The Council as a Council, that is, as a board to consider and take action upon matters of general importance, did practically nothing. One has but to re-read the duties of the Council as defined by the Act creating it to see how largely it failed even to attempt to carry out the duties that were specifically imposed upon it. At no time did it serve as an organ of general overhead administration. After an initial period of rapid expansion and feverish activity it steadily declined, as has been pointed out, in both absolute and relative importance until at the signing of the armistice it figured to but a slight extent in the general war work of the Government. What its future will be as a reconstruction agency it is impossible now to estimate.

## CHAPTER II

### THE MOBILIZATION OF SCIENCE

Science as a factor in the prosecution of the war — The National Academy of Sciences — Its offer of service in the interests of national preparedness — Creation of the National Research Council — Its functions as defined by executive order of the President — Its organization and activities — The Research Information Committee and its foreign contacts — Stimulation of industrial and scientific research — Its permanent organization — The Naval Consulting Board — Its function the examination and development of inventions — Its organization — Scope of its activities.

Another characteristic feature of the Great War was the extent to which recourse had to be had to almost every branch of science in order to meet the technical problems to which its prosecution gave rise. In the National Academy of Sciences the Government had a body to which it could appeal for assistance in this field. This body has a quasi-governmental status, since it was specially chartered by Congress in 1863 and in its charter it is provided that "the Academy shall, whenever called upon by any department of the Government, investigate, examine, experiment, and report upon any subject of science or art." It is a matter of no little interest that this body was created during the progress of our great Civil War, largely in response to the need that was felt by the Government at that time for some agency to which it could look for advice and assistance in respect to matters involving scientific research. In point of fact, during that war and later at various times important use has been made of this body by the Government.

It was only natural, therefore, that upon the out-



break of the Great War this body should offer its services to the Government. This it did at its annual meeting held in April, 1916. By a resolution adopted on April 19, 1916, it offered to organize the scientific resources of educational and research institutions in the interests of national preparedness. This offer was accepted by the President on April 26, 1916, and the Academy was requested to proceed at once with the work. To put its plans into execution the Academy decided to organize a special body to which it gave the name National Research Council. The establishment of this body was formally approved by the President on July 24, 1916, and at the same time he provided for the representation of the Army, the Navy, and various scientific bureaus of the Government in the Council.

On May 11, 1918, the President issued an executive order reciting the organization of the National Research Council, expressing appreciation of its work, requesting the National Academy of Sciences to perpetuate it, and specifying in considerable detail the nature of the duties it should perform. The clearness with which this order sets forth the character of the functions of the Council and the relations it should have to the scientific services of the Government warrants its reproduction in full. It reads:

The National Research Council was organized in 1916 at the request of the President by the National Academy of Sciences, under its congressional charter, as a measure of national preparedness. The work accomplished by the Council in organizing research and in securing coöperation of military and civilian agencies in the solution of military problems demonstrates its capacity for larger service. The National Academy of Sciences is therefore requested to perpetuate the National Research Council, the duties of which shall be as follows:

1. In general, to stimulate research in the mathematical,

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physical, and biological sciences, and in the application of these sciences to engineering, agriculture, medicine, and other useful arts, with the object of increasing knowledge, of strengthening the national defense, and of contributing in other ways to the public welfare.

2. To survey the larger possibilities of science, to formulate comprehensive projects of research, and to develop effective means of utilizing the scientific and technical resources of the country for dealing with these projects.

3. To promote coöperation in research at home and abroad in order to secure concentration of effort, minimize duplication, and stimulate progress; but in all coöperative undertakings to give encouragement to individual initiative as fundamentally important to the advancement of science.

4. To serve as a means of bringing American and foreign investigators into active coöperation with the scientific and technical services of the War and Navy Departments and with those of the civil branches of the Government.

5. To direct the attention of scientific and technical investigators to the present importance of military and industrial problems in connection with the war and to aid in the solution of these problems by organizing specific researches.

6. To gather and collate scientific and technical information at home and abroad in coöperation with governmental and other agencies and to render such information available to duly accredited persons.

Effective prosecution of the Council's work requires the cordial collaboration of the scientific and technical branches of the Government, both military and civil. To this end representatives of the Government, upon the nomination of the National Academy of Sciences, will be designated by the President as members of the Council, as heretofore, and the heads of the departments immediately concerned will continue to coöperate in every way that may be required.

WOODROW WILSON.

THE WHITE HOUSE,

*May 11, 1918.*

The most significant features of this order are that by it the National Research Council became a permanent

body, was given a definite legal status as one of the war agencies created by the President, and had its function as an organ for coördinating the scientific work of the Government more distinctly emphasized.

The Council was duly organized with George E. Hale as Chairman, Charles D. Walcott, Gano Dunn, and R. A. Millikan, as First, Second and Third Vice-Chairmen, and Cary T. Hutchinson as Secretary. As members of the Council were appointed the heads or representatives of nearly all of the scientific bureaus of the Government and a large number of the leading scientists of the country. The Council thus became an agency for mobilizing the scientific talent of the country for war purposes.

It is impossible to describe in detail the work of this body, since much of it was of a confidential nature and all of it of a character that does not lend itself to descriptive statement. We may, however, give some idea of the great value of the services rendered by it to the Government and of the important part that it can play in the future in promoting and correlating scientific work in the United States.

Among the several divisions created by it for the performance of its activities, first mention should be made of the Research Information Committee. This Committee was created in January, 1918, at the instance of the Secretaries of War and the Navy, to serve as an organ for "the securing, classifying and disseminating of scientific, technical, and industrial research information, especially relating to war problems, and the interchange of such information between the allies in Europe and the United States."

The Committee had its headquarters in Washington and branch offices in London, Paris, and Rome. In respect to its foreign activities, it worked in close coöpera-

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tion with the Offices of Military and Naval Intelligence. The functions of the foreign committees in charge of the branch offices were stated to be:

(a) The development of contact with all important research laboratories or agencies, governmental or private; the compilation of problems and subjects under investigation; and the collection and compilation of the results obtained.

(b) The classification, organization, and preparation of such information for transmission to the Research Information Committee in Washington.

(c) The maintenance of continuous contact with the work of the offices of military and naval attachés, in order that all duplication of work or crossing of effort may be avoided with the consequent waste of time and energy and the confusion resulting from crossed or duplicated effort.

(d) To serve as an immediate auxiliary to the offices of the military and naval attachés in the collection, analysis, and compilation of scientific, technical, and industrial research information.

(e) To serve as an agency at the immediate service of the commander-in-chief of the military and naval forces in Europe for the collection and analysis of scientific and technical research information and as an auxiliary to such direct military and naval agencies as may be in use for the purpose.

(f) To serve as centers of distribution to the American Expeditionary Forces in France and to the American naval forces in European waters of scientific and technical research information originating in the United States and transmitted through the Research Information Committee in Washington.

(g) To serve as centers of distribution to our allies in Europe of scientific, technical, and industrial research information originating in the United States and transmitted through the Research Information Committee in Washington.

(h) The maintenance of the necessary contact between the offices in Paris and London in order that provision may be made for the direct and prompt interchange of important scientific and technical information.

(i) To aid research workers or collectors of scientific, technical, and industrial information from the United States when properly accredited from the Research Information Committee

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in Washington, in best achieving their several and particular purposes.

It will be seen from the foregoing how important this Committee was as an agency for keeping the Allies in touch with each other's scientific work and problems. On October 9, 1918, the Council, on the invitation of the Royal Society of London, participated in an Inter-Allied Conference on International Scientific Organizations. In the following month, November 26-28, it took part in a second conference held at Paris, under the auspices of the Paris Academy of Sciences. At these conferences, and largely upon the initiative of the delegates of the American Council, representing the National Academy of Sciences, there was organized an International Research Council, the purpose of which is to invite and establish coöperative working relations between national scientific research bodies in all countries.

In the United States the Council devoted a great deal of attention to the promotion and coördination of industrial research by the large producing concerns of the country, the scientific research work of educational institutions, and the application of science to all problems of both war and industry. It created a large number of special divisions and sections for the study of concrete problems. The following enumeration of the more important of these divisions will give some idea of the scope of its activities: Research Information Committee; Division of General Relations; Military Division; Division of Engineering; Division of Physics, Mathematics, Astronomy, and Geophysics; Division of Geology and Geography; Division of Medicine and Related Sciences; and Division of Agriculture, Botany, Forestry, Zoölogy, and Fisheries. Most of these divisions organized special committees or sections for the



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consideration of particular problems falling in their fields. The results of the studies thus made were embodied partly in published memoirs and bulletins, and partly in confidential communications to the War and Navy Departments. Special mention should be made of the report by its Patent Committee on the organization and work of the United States Patent Office. This report was made on the request of the Commissioner of Patents that the Research Council "investigate the Patent Office and patent system with a view to increasing their effectiveness, and to consider what might be done to make the Patent Office a more truly national institution and more vitally useful to the industrial life of the country." The report was a very able document and included drafts of bills to provide for the putting into effect of its more important recommendations. It is announced that it will be published as a separate document in the form of a bulletin of the National Research Council.

The standing that the Council immediately achieved in the scientific world is shown by the liberal financial support that it received from such organizations as the Engineering Foundation, the Carnegie Corporation of New York and the Rockefeller Foundation. These bodies and certain private individuals gave to it a total of \$74,750.14. In addition to this the Council had turned over to it by the President from his emergency fund and from various other appropriations a total of \$195,650.

Probably the most striking evidence of the value of the National Research Council is to be found in the decision that has been reached to perpetuate it after the war as a permanent body. On February 11, 1919, the Council of the National Academy of Sciences adopted a resolution providing for the placing of the National Research



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Council on a permanent basis. This resolution, which is reproduced in the annual report of the Academy for 1918, constitutes in effect the constitution of the reorganized Council. Its more important provisions are as follows. The purpose of the Council is stated to be that of promoting "research in the mathematical, physical and biological sciences and in the application of these sciences to engineering, agriculture, medicine and other useful arts, with the object of increasing knowledge, or strengthening the national defense, and of contributing in other ways to the public welfare as expressed in the Executive Order of May 11, 1918." Its membership will consist of representatives of the Government as provided for in the executive order cited, national, scientific, and technical societies and other research organizations, together with "other persons whose aid may advance the objects of the Council." The representatives of the Government are to be designated by the President of the United States upon the nomination of the President of the National Academy of Sciences after conference with the Secretaries of the Departments concerned. The representatives of the scientific and technical societies are to be appointed by the President of the National Academy of Sciences upon the nomination of such societies. Other members are to be appointed by the President of the National Academy of Sciences upon the nomination of the executive committees of the research divisions approved by the Executive Board of the Council. For the performance of its duties, the Council will be organized in a number of technical research divisions. Although the number and character of these divisions may be changed from time to time, the resolution provided that at the outset they shall consist of 13 divisions grouped in two classes as follows:

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## I. DIVISIONS OF GENERAL RELATIONS

1. Government Division
2. Division of Foreign Relations
3. Division of States Relations
4. Division of Educational Relations
5. Division of Industrial Relations
6. Research Information Service

## II. DIVISIONS OF SCIENCE AND TECHNOLOGY

7. Division of Physical Sciences
8. Division of Engineering
9. Division of Chemistry and Chemical Technology
10. Division of Geology and Geography
11. Division of Medical Sciences
12. Division of Biology and Agriculture
13. Division of Anthropology and Psychology

The Council will submit an annual report to the National Academy of Sciences, to be submitted by the latter, as a part of its annual report, to Congress. Its scientific papers will appear in the *Proceedings* or *Memoirs* of the National Academy of Sciences, in a separate series issued directly by the Council, or will be given to the public in the publications of other societies or in technical and scientific journals.

Rather full information has been given regarding the permanent organization of the National Research Council since it will undoubtedly play a very important part in coördinating the scientific work of the Government, in establishing close working relations between the scientific bureaus of the Government and outside agencies, and in directing and promoting scientific research work generally in the United States.

The National Research Council had to do with matters of scientific research generally. To undertake the examination and development of inventions and new devices

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that might prove of value in the prosecution of the war, the Government created another body known as the Naval Consulting Board. Although technically this Board was an adjunct of the Navy Department, practically it became an agency available to all branches of the Government. This resulted from the fact that after it had been created by the Navy Department, its services were offered to and accepted by the War Department, and the Council of National Defense, by a resolution adopted on February 15, 1917, made it its Board of Inventions.

The organization of this Board originated with the Secretary of the Navy, who, in the fall of 1915, invited Thomas A. Edison to assume supervision over the examination of new inventions offered to the Navy Department. The legal existence of the Board was established by an Act of August 29, 1916, which made an appropriation of money for its support. It was formally organized on September 19, 1916, when the members were appointed and took their oaths of office. As now organized the Board is composed of 24 members. Mr. Edison is its President; Dr. Peter Cooper Hewitt, its Vice-President; W. S. Saunders, its Chairman; and Thomas Robbins, its Secretary.

The work of the Board consisted in the examination of inventions and devices offered to the Government, and in the attempt itself to devise means for meeting mechanical problems confronting the Government. The amount of work falling upon it may be seen from the fact that the Board at times received over 3,000 letters a week, most of which had for their purpose the making of suggestions or the submission of inventions, and that altogether it considered and passed upon more than 65,000 suggestions. In handling its work the Board created the fol-

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lowing committees: Aeronautics, including aero motors; Aids to Navigation; Chemistry and Physics; Electricity; Food and Sanitation; Internal-Combustion Motors; Life-Saving Appliances; Metallurgy, Mines and Torpedoes; Optical Glass; Ordnance and Explosives; Production, Organization, Manufacture and Standardization; Public Works; Yards and Docks; Ship Construction; Special Problems; Steam Engineering and Ship Propulsion; Submarines; Transportation; Wireless and Communications.

## CHAPTER III

### THE MOBILIZATION OF PUBLICITY AGENCIES

The Committee on Public Information—Its dual function of censorship and publicity—Control of domestic publications—Voluntary and self-imposed censorship of the press—Publicity activities and organization of the Committee—News—Civic and educational coöperation—Syndicate features—Foreign-language newspapers—*Official Bulletin of the United States*—Women's war work—Four-minute men—Public speaking—Pictures—Films—Other services—Censorship a war-time necessity—Special conditions demanding it in the United States—Control of radio communication assumed by the Navy—Military censorship of telegraph, telephone, and submarine-cable communication with foreign countries—Additional powers granted by Congress—Espionage Act—Trading-with-the-Enemy Act—Control of communications by the Censorship Board—Control of the foreign-language press by the Post Office Department.

Almost immediately on the entrance of the United States into the war, it became apparent that special provision should be made, on the one hand, to control the giving of information to the public regarding matters of military import, and, on the other, to make known in an authoritative manner such information as it was desirable that the public should have. On April 13, 1917, the Secretaries of State, War, and the Navy addressed a joint letter to the President calling this matter to his attention and suggesting that there be created a body to be known as the Committee on Public Information which should have these two functions of censorship and publicity in charge. Acting on this recommendation, the President, by executive order issued April 14, 1917, provided for the creation of this Committee, specifying that it should consist of the Secretary of State, the Secretary of War, the Secretary of the Navy,

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and a civilian who should act as the executive head of the Committee. George Creel was named as the civilian member.

In describing the work of this Committee it is well to distinguish between its two functions as a censorship board and as an organ of publicity. In respect to the first it should be noted that the functions of the Committee related wholly to the control of publications inside the United States. It had no duty in respect to the censoring of communications passing between the United States and other countries, the control of such communications being vested in a Censorship Board which will be hereafter described. The situation as regards the control of the domestic press at the outbreak of the war was one in which the Government not only had little or no positive powers to control such publications, but was loath to seek enlarged powers because of the strong adherence of the American people to the principle of the freedom of the press. The Government therefore decided that such measures of control as it would seek to exercise should be in the way of making an appeal to the press of the country voluntarily to refrain from the publication of information that might be of value to the enemy or embarrass the Government in its operations at home. To the Committee on Public Information was entrusted the duty of making this appeal to the press and of taking such steps as were in its power to see that its appeal was met. The Committee accordingly prepared and issued to the press a carefully drafted statement setting forth the character of the information that the Government desired should not be given publicity, and the rules that should be observed by the press in giving information of a military nature or in commenting upon such news. In this statement it



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was carefully set forth that the regulations thus formulated were not of a legally binding character, but were requests which it was hoped that the press would voluntarily observe. The statement thus said:

The Committee on Public Information is without legal authority or moral right to bring any form of pressure on publications to enforce observance of these requests. These paragraphs embody what the military and naval experts of our country hold to be the minimum that can be asked at this time for the protection of our soldiers and sailors and the success of our military plans. For their observance the Government relies implicitly upon the loyalty and judgment of the individual writer and publisher. . . . These requests go to the press without larger authority than the necessities of the war-making branches. Their enforcement is a matter for the press itself.

The Committee, or its Chairman, also participated in other branches of the work of controlling the imparting of information that might be of use to the enemy through the fact that the Chairman of the Committee was a member of the Censorship Board to be hereafter described, and that the Committee was made the agency or clearing house to relate the activities of the military and naval classes to the other departments of the Government and to the public.

The activities of the Committee as an organ of publicity were exceedingly varied and important. Its Division of News centralized the giving out of information by the Army and Navy and other war agencies. About 14,000 country newspapers and 2,000 papers in the smaller cities were furnished a weekly service of condensed war news of two or three columns in length. This matter was sent out largely in plate form, the newspapers bearing the expense of plate. A Division of Civic and Educational Coöperation prepared and dis-

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tributed pamphlets having for their purpose the setting forth of America's side of the issues raised by the war, the correction of the enemy's misrepresentations, and the exposure of the aggressions and unjustifiable methods of prosecuting the war of which the enemy has been guilty. To this end it issued two series of pamphlets, one known as the "Red, White, and Blue Series," and the other, the "War Information Series." These pamphlets were given a wide circulation, over eighteen million copies in all being distributed. In their preparation the Division had the assistance of 40 or 50 college men who gave their services without remuneration. The Division also coöperated with the National Historical Board in promoting the proper study of modern history and with other organizations in the work of giving to students and teachers a knowledge of the historical background of the war and the fundamental issues that were involved in it. A Division of Syndicate Features secured the preparation by prominent writers of articles presenting the issues of the war or treating other matters calculated to stimulate the patriotism of the people for publication in such a way that they would get a large circulation. Some 50 American authors and an equal number of college presidents and professors undertook to meet the wishes of the Division in this way without remuneration. Weekly articles were prepared by a very considerable number of these men, which were given to the Saturday and Sunday papers in all parts of the country. A Division of Foreign-Language Newspapers had the important duty of reading the papers received from Germany and Switzerland, preparing translations or digests of articles appearing in such papers to which it was desirable to give publicity for the use of the Division of News and the Division of Syndicate Features.

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It also translated the more important pamphlets prepared by the Committee into foreign languages, and prepared editorial and news matter for publication in the foreign-language press of the country. Particular attention was paid to enemy-language press in order to promote the patriotic support of the Government by the readers of those papers. Finally, the Division acted as a translation service for the Department of Justice and the Post Office Department. It had the assistance of nearly 300 volunteer translators.

The Official Bulletin Division had charge of the preparation and issue of the *Official Bulletin of the United States*. The publication of this journal was begun on May 10, 1917. It appeared daily, except Sundays and holidays, and furnished an exceedingly effective means of giving publicity to information regarding not only the military, but also the purely civil operations of the Government. It was distributed for the most part gratuitously, although a small income was received from paid subscriptions. Valuable as this publication was, it could easily have been made more so. It far from contained all the news regarding the official acts of the Government to which publicity should have been given. Especially unfortunate was the form in which the material given was presented. The model followed was that of a daily newspaper with scare headlines. A much more dignified and effective method would have been that of carefully classifying the material according to departments, one for Congressional proceedings, one for the Railroad Administration, one for military communications, etc. Upon the dissolution of the Committee on Public Information the publication of the *Bulletin* was discontinued, the last issue being that for March 31, 1919. It has, however, in effect been continued under

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the title of the *United States Bulletin* as a private enterprise.<sup>1</sup> In its new form it appears only twice a week instead of daily.

A Division of Women's War Work was established to encourage the war activities of the women of America and to act as a clearing house for information regarding such work. It collected and distributed news and wrote articles concerning the work of women in the war which it distributed to the newspapers of the country.

The Division of Four-Minute Men had the direction of over 15,000 men who volunteered to make four-minute speeches to motion-picture audiences during intermissions. It managed a number of campaigns for various purposes, the most important being for the sale of Liberty bonds. This Division also prepared and distributed to its speakers a bulletin giving suggestions and material to be used by them. A Division of Public Speaking had as its function the coördination of the efforts of a dozen or more national speakers' bureaus. It filled requests for speakers and routed them throughout the country. It made an especial effort to reach the small communities and farm districts. A Division of Pictures issued permits for the taking of photographs of Government activities, decided what pictures might be published under the voluntary censorship, and distributed official photographs, drawings, pictorial records, motion pictures, war films, etc. Sets of stereopticon slides were prepared for the use of lecturers. A Division of Films made and distributed motion-picture films having for their purpose to inform the American public regarding the war activities of the Government. The distribution of the films was made chiefly through the State Councils of Defense.

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<sup>1</sup> Published by Roger W. Babson, 10 Jackson Place, Washington, D. C.

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These films were largely used for the purpose of giving benefits for the various war activities such as the Y. M. C. A., War Camp Community Service, etc.

Other divisions mobilized the artists of the country for the preparation of posters and other pictorial means of appealing to the country; gave to the several departments of the Government an organized advertising service consisting of the volunteer help of all the national advertising agencies of the country; made known to inhabitants of the enemy and neutral countries America's ideals, aims, and war activities; and rendered other services too numerous to mention here.

Upon the signing of the armistice the need for the Committee on Public Information largely passed away. The Committee accordingly wound up its outstanding work as rapidly as possible and by the end of March, 1919, practically went out of existence.

All Governments in time of war have to take steps to prevent the disclosure to the enemy of information regarding their military plans and operations. They have also to take precautions against the spreading of misinformation, seditious utterances, the publication of seditious matter, or any action having for its purpose or effect to lend aid and comfort to the enemy, or to embarrass the Government in its plans, or to lead the people to do other than give a full and hearty support to the Government and to the enforcement of all laws enacted by it. In no war in which we have ever been engaged has action of this kind been more necessary than in the case of the Great War. This was due to a combination of circumstances. We had in our midst, in the first place, millions of persons who had been born in the countries with which we were at war or were children

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of parents who had been born there and who had a natural sympathy for those countries. Many of these persons had never foresworn allegiance to those countries and were thus aliens. Many also were unable to read and write the English language and had thus been unable to fully enter into the life and aims of their new country. There was a large and influential press published in the enemy's language. There were also in the country a certain number of persons adhering to the tenets of socialism and pacificism who could not be counted upon to support the Government with loyalty even if they did not seek positively to embarrass it in its war measures. Most important of all, however, was the fact that the enemy, even before our entrance into the war, had organized a spy service in this country on a most elaborate scale, had taken steps through his accredited diplomatic and consular representatives for the destruction of ammunition plants, the promotion of labor disturbances, and interference in every way possible in our industrial life, and had in full force a propaganda having for its purpose to promote his interests and do damage to our own.

The first step taken to meet this situation was the issue by the President of an executive order dated April 6, 1917, directing the Secretary of the Navy to assume control over all means of radio communication. This order was issued in pursuance of the Act to Regulate Radio Communication, approved August 13, 1912, which authorized the President to take over on behalf of the Government all radio stations within the jurisdiction of the United States that might be needed by the Government for naval communication in the event of war and to control or close all other radio stations.

The Navy Department in exercising the authority



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thus conferred upon it did not content itself with controlling all means of radio communication, but acquired the actual ownership of most radio stations in the United States. It is now seeking to secure action by Congress that will make this ownership and control of radio communication a Government monopoly to be administered by it. The bill providing for this, as framed by the Department, has been introduced into Congress and extensive hearings have been held on it. The bill has received the endorsement of the Secretaries of most of the executive Departments. There is, however, much opposition to it by the Marconi Company and others who do not look favorably upon the idea of the Navy Department's having the administration of this means of communication in times of peace. If it is decided that wireless communication should be a Government monopoly, it is more than a question whether its administration should not be vested in the Department of Commerce or the Post Office Department. In these circumstances it is hardly likely that the Navy proposal will be favorably acted upon. The fact that the Navy now has the possession and ownership of most wireless stations renders it necessary that some action should be taken by Congress towards determining the conditions under which wireless communication will be conducted in the future.

On April 28, 1917, the President issued another executive order prohibiting all telegraph, telephone, and submarine-cable companies from transmitting messages to points outside of the United States and from delivering messages received from such points except as permitted under rules and regulations to be established by the Secretary of War for telegraph and telephone lines and by the Secretary of the Navy for submarine cables. Both the War and Navy Departments framed such rules and each

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appointed an officer to act as censor. The Committee on Public Information, as has already been pointed out, was made the clearing house necessary to relate the activities of these military and naval censors to the other departments and to the public.

As the war progressed, it became evident that the powers of the Government to prevent the imparting of information to the enemy, the securing of such information through acts of espionage, and the utterance and publication of matters of a seditious character or tending in any way to interfere with a due enforcement of the laws of the land or to embarrass the Government in its effort to secure a successful promotion of the war would have to be increased. This need of additional power of an affirmative character was met by provisions inserted in the so-called Espionage Act of June 15, 1917, the Trading-with-the-Enemy Act of October 6, 1917, and the Act of May 6, 1918, amending the first named Act.

The provisions of these Acts taken together were extremely comprehensive and drastic. The first named, as amended on May 6, 1918, was indeed of so unexampled a nature that its provisions, in so far as they bear upon the subject under discussion, deserve to be reproduced in full. They read:

SEC. 3. Whoever, when the United States is at war, shall willfully make or convey false reports or false statements with intent to interfere with the operation or success of the military or naval forces of the United States, or to promote the success of its enemies, or shall willfully make or convey false reports or false statements, or say or do anything except by way of *bona fide* and not disloyal advice to an investor or investors, with intent to obstruct the sale by the United States of bonds or other securities of the United States or the making of loans by or to the United States, and whoever, when

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the United States is at war, shall willfully cause, or attempt to cause, or incite or attempt to incite, insubordination, disloyalty, mutiny, or refusal of duty, in the military or naval forces of the United States, or shall willfully obstruct or attempt to obstruct the recruiting or enlistment service of the United States, and whoever, when the United States is at war, shall willfully utter, print, write, or publish any disloyal, profane, scurrilous, or abusive language about the form of government of the United States, or the Constitution of the United States, or the military or naval forces of the United States, or the flag of the United States, or the uniform of the Army or Navy of the United States, or any language intended to bring the form of government of the United States, or the Constitution of the United States, or the military or naval forces of the United States, or the flag of the United States, or the uniform of the Army or Navy of the United States into contempt, scorn, contumely, or disrepute, or shall willfully utter, print, write, or publish any language intended to incite, provoke, or encourage resistance to the United States, or to promote the cause of its enemies, or shall willfully display the flag of any foreign enemy, or shall willfully by utterance, writing, printing, publication, or language spoken, urge, incite, or advocate any curtailment of production in this country of any thing or things, product or products, necessary or essential to the prosecution of the war in which the United States may be engaged, with intent by such curtailment to cripple or hinder the United States in the prosecution of the war, and whoever shall willfully advocate, teach, defend, or suggest the doing of any of the acts or things in this section enumerated, and whoever shall by word or act support or favor the cause of any country with which the United States is at war or by word or act oppose the cause of the United States therein, shall be punished by a fine of not more than \$10,000 or imprisonment for not more than twenty years, or both: *Provided*, That any employee or official of the United States Government who commits any disloyal act or utters any unpatriotic or disloyal language, or who, in an abusive and violent manner criticizes the Army or Navy or the flag of the United States shall be at once dismissed from the service. Any such employee shall be dismissed by the head of the department in which the employee may be engaged, and any

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such official shall be dismissed by the authority having power to appoint a successor to the dismissed official.

SEC. 4. When the United States is at war, the Postmaster General may, upon evidence satisfactory to him that any person or concern is using the mails in violation of any of the provisions of this Act, instruct the postmaster at any post office at which mail is received addressed to such person or concern to return to the postmaster at the office at which they were originally mailed all letters or other matter so addressed, with the words "Mail to this address undeliverable under Espionage Act" plainly written or stamped upon the outside thereof, and all such letters or other matter so returned to such postmasters shall be by them returned to the senders thereof under such regulations as the Postmaster General may prescribe.

In respect to most of these provisions little doubt exists regarding their necessity and propriety. Opinion, however, was by no means unanimous in respect to the legitimacy of the enactment of provisions so drastic as those making it a penal offense to "willfully utter, print, write or publish any disloyal, profane, scurrilous or abusive language about the form of government of the United States or the Constitution of the United States . . . or any language intended to bring the form of government of the United States or the Constitution of the United States . . . into contempt, scorn, contumely or disrepute." It is not easy to square this provision with Amendment I of the Federal Constitution which declares that "Congress shall make no law . . . abridging the freedom of speech, or of the press." Broadly construed it would permit the Department of Justice to proceed against, and the courts to impose severe penalties upon, any one criticizing any feature either of our constitutional system or of our form of government as established under such Constitution. It is, moreover, not apparent how such criticism

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could in any material way lend aid and comfort to the enemy. In administering this law it was, of course, possible for the Government and the courts to proceed in such a way that no loyal person would be injured in his rights, and in passing the law Congress acted with the belief that the law would be so administered. That the law had in it the possibility of oppression, however, can hardly be questioned.

The second Act, among other things, prohibits any person, not duly authorized so to do, "to send or take out of, or bring into, or attempt to send, or take out, or bring into the United States any letter or other writing or tangible form of communication, except in the regular course of the mail," or "to send, take or transmit, or attempt to send, take, or transmit out of the United States, any letter or other writing, book, map, plan, or other paper, picture, or any telegrams, cablegrams or wireless message, or other form of communication intended for or to be delivered directly or indirectly to an enemy or ally of enemy," except as such communication had been authorized by the President or such officer as the President might direct. It further conferred upon the President complete power to censor all communications of every sort passing between this country and any foreign country. And, finally, it subjected the foreign-language press of the country to special regulations to insure that use should not be made of such press to assist the enemy in any way, to promote trouble in this country, or to induce persons to refrain from loyally supporting the Government and all of its laws. To this end it made illegal until the end of the war the printing, publication or circulation in any foreign language of any "news item, editorial, or other printed matter respecting the Government of the United States

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or of any nation engaged in the present war, its policies, international relations, the state or conduct of the war, or any matters relating thereto'' until a sworn certificate giving the correct translation in English of such communication had first been filed with the postmaster at the place of publication. The President, however, was given power to exempt such publications from these requirements when in his opinion such exemption could be granted without detriment to the United States in the conduct of the war. All publications not complying with these requirements were declared to be non-mailable, and heavy penalties were provided for all persons failing to comply with them.

By executive order dated October 12, 1917, the President designated the various agencies which should have charge of the administration of the several features of the Trading-with-the-Enemy Act. For the censoring of news coming from or going to foreign countries this order created a body known as the Censorship Board, to be composed of representatives of the Secretary of War, the Secretary of the Navy, the Postmaster-General, the War Trade Board and the Chairman of the Committee on Public Information. The enforcement of the provisions regarding the foreign-language press was vested in the Postmaster-General. Following is a copy of the provisions of this order in so far as it relates to these two matters:

XIV. I hereby establish a Censorship Board to be composed of representatives respectively of the Secretary of War, the Secretary of the Navy, the Postmaster General, the War Trade Board and the Chairman of the Committee on Public Information.

XV. And I hereby vest in said Censorship Board the executive administration of the rules, regulations and proclamations



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from time to time established by the President under subsection (d) of section 3, of the Trading with the Enemy Act, for the censorship of communications by mail, cable, radio or other means of transmission passing between the United States and any foreign country from time to time specified by the President, or carried by any vessel, or other means of transportation touching at any port, place or territory of the United States and bound to or from any foreign country.

XVI. The said Censorship Board is hereby authorized to take all such measures as may be necessary or expedient to administer the powers hereby conferred.

XXII. I hereby vest in the Postmaster General the executive administration of all its provisions (except the penal provisions) of Section 19 of the Trading with the Enemy Act relating to the printing, publishing, or circulation in any foreign language of any news item, editorial, or other printed matter respecting the government of the United States, or of any nation engaged in the present war, its policies, international relations, the state or conduct of the war or any matter relating thereto, and the filing with the Postmaster at the place of publication, in the form of an affidavit of a true and complete translation of the entire article containing such matter proposed to be published in such print, newspaper or publication, and the issuance of permits for the printing, publication and distribution thereof free from said restriction. And the Postmaster General is authorized and empowered to issue such permits upon such terms and conditions as are not inconsistent with law and to refuse, withhold or revoke the same.

It should be noted in connection with the above that the censoring of communications and the control of the press as thus provided for relate only to foreign communications and to the printing, publication, and distribution of matter in a foreign language. No provision was made for the censoring of internal communications, and the control over the press in the English language remained on the voluntary basis as administered by the Committee on Public Information, subject, however, to

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the right of the Postmaster-General to refuse the right to the use of the mails to publications not complying with the provisions of the law. The scope of this right on the part of the Postmaster-General to exclude matter from the mails was clearly defined by the Postmaster-General in a letter to a correspondent, dated October 22, 1917, and published in the *Official Bulletin* of October 27, 1917:

October 22, 1917.

MR. MILTON BRONNER,  
1132 Munsey Building,  
Washington, D. C.

SIR:

Referring to your verbal request for a statement for your use in advising certain publishers of the scope of the act of June 15, 1917 (espionage act), and the act of October 6, 1917 (trading-with-the-enemy act), so far as the said acts affect the Postal Service, and the interpretation placed upon them by this department, you are advised that under these acts it is unlawful for any person, firm, corporation, or association to mail, or to transport, or carry, or otherwise publish or distribute during the present war any printed or other matter —

(1) Advocating or urging treason, insurrection, or forcible resistance to any law of the United States.

(2) Any matter conveying false reports or false statements intended to interfere with the operation or success of the military or naval forces of the United States, or to promote the success of its enemies.

(3) Any matter intended to cause insubordination, disloyalty, mutiny, or refusal of duty in the military or naval forces of the United States.

(4) Any matter intended to obstruct the recruiting or enlistment service of the United States, to the injury of the services of the United States.

(5) Any matter, the circulation or publication of which involves the violation of any of the numerous other criminal provisions of the espionage act, but which are not of special interest to publishers.

(6) Any matter printed in a foreign language containing

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any news item, editorial, or other printed matter respecting the Government of the United States, or of any nation engaged in the present war, its policies, international relations, the state or conduct of war, or any matter relating thereto, unless the publisher or distributor thereof, on or before offering the same for mailing, or in any manner distributing it to the public, has filed with the postmaster at the place of publication, in the form of an affidavit, a true and complete translation of the entire article, containing such matter proposed to be published, and has caused to be printed on each copy thereof, in plain type in the English language, at the head of such item, editorial, or other matter, the words, "True translation filed with postmaster at \_\_\_\_\_ on \_\_\_\_\_ (the name of the post office where the translation was filed, and the date of filing thereof), as required by section 19 of the act of October 6, 1917."

(7) Any matter referred to in the preceding paragraph for which publishers have been granted a permit to circulate, free of restrictions named therein, but which does not bear at the head thereof in plain type in the English language the words:

"Published and distributed under permit No. \_\_\_\_\_ (here giving the number of the permit), authorized by the act of October 6, 1917, on file at the post office of \_\_\_\_\_ (here giving the name of the office of publication)."

By order of the President:

A. S. BURLESON,  
Postmaster General.

The continuance of the censorship of foreign mails and cable and wireless communications after the signing of the armistice gave rise to widespread protests. Although the censorship of cables by the United States was in time discontinued, the fact that foreign Governments still censor communications at the other end has prevented this means of communication from being freely used as in normal times. This situation will probably not be cleared up until the definite signing of the treaty of peace.

## CHAPTER IV

### THE MOBILIZATION OF FINANCE

Financial preparedness of the United States—Importance of the income-tax amendment and the Federal Reserve Act—Revenue legislation and the issue of securities—Dual problem of the mobilization of capital—Necessary limitations on security issues—Capital Issues Committee created by the Federal Reserve Board—Its functions and operations—Capital Issues Committee created by the War Finance Corporation Act—Its duties—Its powers determined by voluntary co-operation—Scope of its operations—Necessary financing of essential war enterprises—War Finance Corporation created—Its composition and powers—Its resources and operations—Its post-war functions—War Credits Board of the War Department.

Whatever criticism may be directed against the United States for its failure to prepare itself for war cannot refer to the important department of finance. It is difficult to see in what respects more effective provision could have been made by the National Government for meeting the financial requirements of the great war. In the passage of the amendment to the Constitution of June 12, 1909, by which provision was made that Congress should have power to levy and collect taxes on incomes, from whatever source derived, without apportionment among the several states and without regard to any census or enumeration, and the Federal Reserve Act of December 23, 1913, which completely reorganized our national banking system, the National Government took two steps towards military preparedness the importance of which it is impossible to exaggerate.

Chiefly through these two acts, both of which antedated the outbreak of the war by only a few years, the United States was able to meet all of the financial prob-

lems presented by the greatest war of history with a minimum of interruption to the normal financial life of the community. Additional legislation had of course to be enacted. First of all, laws had to be passed to provide for the securing of the increased income required in order to meet war needs. These laws called for the increase of existing taxes, the imposition of new taxes, of which the most important was that on what was known as excess profits, and the sale of billions of dollars worth of bonds, certificates of indebtedness, war savings certificates, and war savings stamps. Although the provisions of the revenue laws were open to criticism, they accomplished their purpose of bringing into the treasury an enormous income. The policy of the Treasury Department in the floating of securities met with almost universal commendation. Especially did the system of sale of war saving certificates and stamps meet with a brilliant success. The prominent feature of the sale of all the securities and bonds, as well as of certificates and stamps, was the successful appeal that was made to the patriotism of the public for their purchase. It is undoubtedly true that the purchase of these securities involved a financial sacrifice on the part of most of their purchasers. Subscription to the various loans represented the desire on the part of each member of the entire community to do his bit in accordance with his abilities.

Interesting and important as was this phase of the war activities of the Government, it is one into which the present work cannot enter.<sup>1</sup> There were, however, certain special problems of a financial character that

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<sup>1</sup> For a detailed discussion of the war finance of the United States see, in this series, Ernest L. Bogart, *War Costs and Their Financing*.

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gave rise to the necessity for the creation of special war agencies to handle them. They had to do with the problem of the mobilization of the capital of the country for war purposes. This mobilization had two phases: one, limitation upon the issue of new securities by bodies other than the National Government to the end that the supply of capital available for investment might be employed solely for the purpose of meeting war needs; and, two, the furnishing of necessary capital by the Government to those undertakings engaged in war work or in meeting the essential needs of the community where such undertakings were unable to secure such capital from private sources upon reasonable terms. To meet these two phases of the financial problem the Government brought into existence two special war agencies, known as the Capital Issues Committee and the War Finance Corporation.

The necessity for the mobilization of loanable capital for war purposes has already been pointed out. This need was excellently stated by Mr. McAdoo, the Secretary of the Treasury, in a statement submitted on February 11, 1918, to the Senate Committee on Finance, which was then holding hearings on a bill providing for the establishment of a War Finance Corporation and a Capital Issues Committee which the Administration was urging for adoption. In it he said:

It is important that appropriate provision be made by law, so that, for the duration of the war, funds available for investment in securities shall be effectively and economically used to supply the financial requirements of the Government and of those industries whose operation are necessary or contributory to the war. The ordinary flow of capital, which in normal times is left free to seek its own investment should, during the war, be so directed and conserved that these re-



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quirements shall be taken care of before funds shall be invested either in new enterprises or for the expansion of such old enterprises as are not necessary or contributory to the prosecution of the war. In these critical times funds available for investment must not be dissipated on miscellaneous capital expenditures which, however useful or desirable in normal times, will not now aid in the success of the war. It is not so much a question of money as a question of labor and materials. It is essential that the demand for labor and materials for industries which are not contributory to the prosecution of the war should be kept within bounds, so that the war needs shall be first provided for. The test must be whether the proposed expenditure will strengthen the industrial and military structure of the country for the purposes of the war.

The first step towards the accomplishment of this end was made by the Secretary of the Treasury. In his annual report for 1917 Mr. McAdoo called attention to the desirability of avoiding all unnecessary capital expenditures. Following this up, he requested the Federal Reserve Board, of which he was *ex officio* Chairman, to take such action as was within its powers in the direction of the limitation of capital issues. This the Board did by the organization of a Capital Issues Committee and the dispatch of a request to all banks and other institutions having to do with the issue or underwriting of securities to refuse to undertake the issue of new securities until their desirability had been passed upon by the Committee. To assist the Committee in its work provision was made for a local capital issues committee for each Federal Reserve District with headquarters at the Federal Reserve Bank of the District. The plan provided that all applications for the approval of security issues would be made to the central Committee, which would, when necessary, refer them for

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consideration and advice to the appropriate local committee.

Important results were accomplished under this system. On March 21, 1918, the Chairman of the central Committee reported that up to that date it had passed upon 96 applications aggregating \$232,868,918. The majority of the approvals given, he stated, were for renewals or refunding operations. Approvals of new issues, municipal or otherwise, represented in many cases reductions in the amounts originally asked for. The number of applications formally declined was comparatively small, due to the fact that many applications were suppressed at the source, either because the applicants realized that the purposes for which money was desired were not of a character that would meet with the approval of the Committee, or because the local committees had been able to dissuade the applicants from pursuing their requests. The success achieved was another example of the voluntary patriotic action on the part of banks and individuals which contributed so much to the successful prosecution of the war.

Notwithstanding the results accomplished by this Committee, it became more and more evident that the work being done by it should be put upon a legally sanctioned basis. As the Secretary of the Treasury expressed it in his statement above referred to:

While patriotic business men and bankers have in many instances voluntarily submitted the question whether the particular security issue then contemplated will be in any way helpful to the prosecution of the war, it is certainly not desirable that matters of such great importance should be left upon a purely voluntary basis. These questions should be dealt with systematically by Congress. The thoughtful and patriotic citizen who voluntarily submits his plans to the

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Government should not be placed at a disadvantage with his less thoughtful or less scrupulous fellow citizen who goes ahead with his private affairs without reference to the war needs of his country.

This recommendation of the Secretary of the Treasury, as well as that for the creation of a War Finance Corporation to be hereafter described, was acted upon by Congress through the passage on April 5, 1918, of what is known as the War Finance Corporation Act, the full title of which is: "An Act to provide further for the national security and defense and for the purpose of assisting in the prosecution of the war, to provide credits for industries and enterprises in the United States necessary or contributory to the prosecution of the war and to supervise the issuance of securities and for other purposes."

Title II of this Act provided for the creation of a committee to be known as the Capital Issues Committee, to be composed of seven members to be appointed by the President by and with the advice and consent of the Senate, at least three of whom should be members of the Federal Reserve Board. The terms of office of the members, it was provided, should be fixed by the President, and the compensation of those members who were not members of the Federal Reserve Board was fixed at \$7,500 per annum. If a member received any other compensation from an office under the United States, the amount of such compensation was to be deducted from his salary as a member of the Committee.

To this Committee was given the duty, under such rules and regulations as might be prescribed by it, of investigating and passing upon the desirability, from the standpoint of the prosecution of the war and the general interests of the community, of any new issue of securities

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to the aggregate par value of \$100,000. This duty, however, did not extend to the passing upon any borrowing by a person, firm or corporation in the ordinary course of business as distinguished from borrowing for capital purposes, the renewing or refunding of existing indebtedness, the resale of securities, or the sale of securities by the Federal Government or any of its agencies.

Upon the creation of this Committee, the old Capital Issues Committee of the Federal Reserve Board went out of existence. During its life it had passed upon the issue of securities to the total amount of \$478,458,386. The 12 local committees in the Federal Reserve Districts were, however, preserved, and they continued to serve the new Committee in the same capacity as they had the old.

Although the new Committee was given Congressional recognition and an official status, it is important to note that its work still continued on a voluntary basis in the sense that firms and corporations were under no legal compulsion to submit their proposed issues of securities to the Committee or to abide by its decisions. Notwithstanding this the Committee was able substantially to control the situation. This was due to the patriotic support and coöperation it received from all the larger corporations, banks, and organizations such as the Investment Bankers' Association of America, the National Association of Municipal Accounting Officials, the National Association of State Railroad Commissioners, the American Bankers' Association, the Chamber of Commerce of the United States of America, and the National Association of Blue Sky Commissioners. In its report submitted in December, 1918, the Committee was, however, compelled to state that

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in the absence of specific power, either to compel submission to its jurisdiction or to its findings, the Committee has been unable to deal effectively with many enterprises whose promoters or managers remained deaf to every appeal to their patriotism. This situation permitted the continuance of a considerable traffic in worthless or fraudulent securities which could not be checked by the Committee although grossly incompatible with the national interest.

In this report the Committee stated that up to November 11, 1918, it had received and passed upon 2,289 applications involving the issue of new securities to the par value of \$2,564,021,000. Of this total approved by the Committee, only \$366,914,000, or 14 per cent., involved the use of capital, labor, and materials for new construction and equipment, and of this amount \$100,-224,000 was in payment for work that had been performed or was under contract before April 30, 1918, the date of the passage of the War Finance Corporation Act. Less than 11 per cent., therefore, of the total approved for issue was for new construction and equipment, and most of this was for extending and increasing the facilities of public-utility companies serving war industries.

The Committee recommended unanimously that this work of Federal supervision of security issues be permanently continued after the conclusion of the war by some Government agency "in such a form as to check the traffic in doubtful securities while imposing no undue restrictions upon the financing of legitimate industry."

The Capital Issues Committee had, as we have seen, the function of mobilizing the financial resources of the country by preventing, so far as it could, the dissipation of loanable capital into enterprises not contributory to

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the prosecution of the war or the satisfaction of the essential needs of the community. Its work was thus of a negative character. The needs of the situation, however, required more than this. Affirmative action was required in the way of securing funds for those enterprises of an essential character which were unable to secure the money needed by them from private sources at a reasonable rate. The Secretary of the Treasury, therefore, urged upon Congress the passage of a law providing for the creation of an agency, to be known as the War Finance Corporation, which should have this positive function of loaning money to enterprises engaged in war work or work contributory thereto, either directly or indirectly through the banks of the country. The need for an institution of this character and the conditions under which it should work were thus set forth in the statement submitted by the Secretary of the Treasury to the Senate Finance Committee to which reference has already been made. The Secretary said :

The proposed act to incorporate a War Finance Corporation should be regarded primarily as a measure to enable the banks, both national banks and state banks and trust companies, to continue to furnish essential credits for industries and enterprises which are necessary or contributory to the prosecution of the war.

The Government's borrowings, particularly during the period immediately preceding and following each Liberty Loan, have tended to preëempt the credit facilities of the banks and often to prevent them from giving needed and customary help to quasi-public and private enterprises. Many instances have been brought to the attention of the Secretary of the Treasury and of the Federal Reserve Board, where industrial plants, public utilities, power plants, railroads and others, have found it difficult, if not impossible, to obtain the necessary advances to enable them to perform vital service in connection with the war because essential credits, ordinarily



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available to them, are being absorbed by the Government itself.

In Europe central banks are permitted to grant to banks and bankers loans upon stocks and bonds upon certain well-defined terms. The Federal Reserve Act does not provide for these and the War Finance Corporation is designed as a war emergency to fill this gap. The provisions of the Federal Reserve Act, which permit Federal Reserve Banks to rediscount and purchase commercial paper and paper secured by the Government's obligations, have had the effect of forcing the bank to discriminate against loans on ineligible paper, even when such loans were vitally necessary for war purposes, in favor of loans on commercial paper even when they represent activities or enterprises not related to the war, and which might well be curtailed during the period of the war. It is believed that the proposed bill has been wisely and conservatively conceived as a war measure to give relief from this condition during the war. The banks of the country would no doubt scrutinize with the utmost care both the loans themselves and the security therefor and would exercise their individual judgment upon the borrower's credit before assuming a liability for the amount of the loan, and also because they would be under the necessity of advancing, out of their own resources, 25 per cent. of the amount loaned. The bill would authorize advances to a bank of only 75 per cent. of the amount loaned by the bank on the notes or obligations of persons, firms, or corporations whose activities are necessary or contributory to the war.

This appeal of Mr. McAdoo was met by Congress through the passage of the War Finance Corporation Act of April 5, 1918. The provisions of this Act in so far as it relates to the creation of a Capital Issues Committee have already been given. In respect to the War Finance Corporation, the Act provided for the creation of a corporation under that name with a capital of \$500,000,000, all to be subscribed by the United States, and an appropriation of that sum was made for payment for the stock. The management of the affairs of the Cor-

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poration was vested in a board of directors consisting of the Secretary of the Treasury as Chairman and four other persons to be appointed by the President by and with the advice and consent of the Senate, two to serve for terms of two years and two for terms of four years. Each of the four directors to be appointed by the President was given a salary of \$12,000 per annum, with the proviso that if any one was already in receipt of a salary from the Government, such salary should be treated as a part of the total compensation of \$12,000

In addition to the general powers of a corporation, this Corporation was given the specific power of making loans for a period of not to exceed five years to banks, bankers, trust companies, savings banks, and building and loan associations, to enable them in turn to make loans to, or to purchase the securities of, individuals and corporations engaged in operations necessary or contributory to the prosecution of the war; and, in exceptional cases, to make loans directly to such persons and corporations. The loans to banks, bankers, and trust companies could not exceed 75 per cent. of the loans made by them to individuals and corporations engaged upon war work or of the securities purchased thereon, and were to be made upon the promissory notes of the banking institutions secured by the notes, bonds, or other obligations that were the basis of the transaction, together with all the securities that such institutions might hold as collateral for such obligations. The amount advanced by the Corporation to a banking institution might, however, be increased to 100 per cent. of the amount loaned by the bank to, or of the securities purchased by the bank from, an undertaking engaged in war work or work contributory to the war upon the bank's furnishing to the Corporation additional col-

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lateral equal to 33 per cent. of the advances and of a character satisfactory to the Corporation. The loans to savings institutions, such as savings banks and building and loan associations, were to be made for a period of not to exceed one year, on the promissory notes of the institutions, and to be secured by the pledge of securities satisfactory to the Corporation and of a market value equal to at least 133 per cent. of the sum loaned.

The provisions regarding the rate of interest to be paid on Corporation loans were that such rate should not be less than one per centum per annum in excess of the rate of discount for 90-day paper prevailing at the time of the advance at the Federal Reserve Bank of the district in which the borrowing bank was located, but should in no case be greater than the average rate receivable by the borrowing institution on its loans and investments made during the six months prior to the date of the advance, except that when such average rate was less than the rate of discount for 90-day commercial paper, the rate should be equal to the rate of discount.

Loans direct to persons, firms, or corporations were, however, to be made only when such undertakings were unable to secure the funds needed by them upon reasonable terms through banking channels or appeals to the public. Such loans were to run for not to exceed five years; to be made subject to such terms and regulations as the Corporation might prescribe; to be secured by security prescribed by the Corporation equal (except in the case of an advance made to a railroad in the possession and control of the President for the purpose of making additions, betterments, or extensions to such railroad) to at least 125 per cent. of the amount of the advance; and to bear a rate of interest not less than one

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per centum per annum in excess of the rate of discount for 90-day paper prevailing at the time of such advance at the Federal Reserve Bank of the district in which the borrower was located. The total amount of direct advances of this character should not exceed at any time a sum equal to  $12\frac{1}{2}$  per cent. of the authorized capital stock of the Corporation plus the total amount of bonds of the Corporation authorized to be outstanding when the capital stock was fully paid in.

For the making of its loans the Corporation had at its disposal in the first place the \$500,000,000 resulting from the sale of its capital stock to the Government. To supplement this the Corporation was authorized to issue and have outstanding at any one time its bonds in an amount not to exceed six times the capital stock — that is, \$3,000,000,000. These bonds, it was provided, should mature not less than one nor more than five years from their dates of issue; should bear such rate of interest as might be fixed by the Corporation and approved by the Secretary of the Treasury; should be redeemable before maturity at the option of the Corporation; should be issued at not less than par; should be deemed to be a first and paramount charge on all of the assets of the Corporation; and should be exempt both as to principal and interest from all taxation, national, state, and local, except estate and inheritance taxes and the graduated additional income taxes and excess-profits and war-profits taxes imposed by the United States. Provision was made that the United States should not be liable for the payment of the bonds or obligations of the Corporation or interest thereon, or for any act or omission of the Corporation. Notwithstanding this, the moral obligation of the Government is so clear that it is difficult to see how it could avoid com-

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ing to the rescue of the Corporation should occasion ever require.

The net earnings of the Corporation were to be accumulated as a reserve fund until the Corporation was liquidated, pending which they were to be invested in United States bonds issued or converted after September 24, 1917, or to be deposited in member banks of the Federal reserve system, or to be used to purchase and redeem any bonds of the Corporation outstanding. Beginning six months after the issue by the President of a proclamation announcing the conclusion of the war, the directors of the Corporation are to enter upon the work of liquidating the assets of the Corporation and the winding up of its affairs. Any balance remaining at the end of the liquidation is to be turned into the general fund of the Treasury of the United States as a miscellaneous receipt.

The Secretary of the Treasury in his report for 1918 stated that up to October 31, 1918, applications for advances for an aggregate sum of \$323,329,232.22 had been received by the Corporation, upon which advances to the amount of \$67,716,342.49 had been made. The gross earnings of the Corporation up to that date had been \$2,228,333.49. After deducting administrative expenses, amounting to \$58,726.63, there remained the sum of \$2,169,606.86 as net earnings.

With the termination of hostilities through the signing of the armistice, the need for a body such as the War Finance Corporation did not entirely pass away. Especially was there need for means by which the purchases of our allies in this country might be financed. The interesting proposal was therefore advanced that this Corporation be continued as a Peace Finance Corporation, and that special powers be granted to it to

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make loans to foreign Governments and their citizens with which to settle their trade balances with us.

This proposal was in a measure met by Sections 9 and 10 of the Victory Liberty Loan Act of March 3, 1919, providing for the amendment of the War Finance Corporation Act in the following respects. The Corporation was authorized, "in order to promote commerce with foreign nations," to make advances, to an aggregate amount of \$1,000,000,000, to persons, firms, etc., in the United States engaged in exporting therefrom domestic products to foreign countries, when such persons, firms, etc., were unable to obtain money through ordinary banking channels on reasonable terms for financing their operations; or to banks and trust companies which might, after the passage of this Act, make advances to persons to enable them to carry on their exporting business. These advances were to run for not to exceed five years. The advances to individuals, firms, etc., it was provided, should only be for the purpose of assisting in the exportation of domestic products; should not exceed the contract prices of the goods including insurance and carrying charges payable in the United States; and should bear interest at not less than one per centum per annum in excess of the discount rate for 90-day commercial paper prevailing at the time the advances were made at the Federal Reserve Bank of the district in which the borrower was located. The advances to banks should not exceed the amount of the balances remaining unpaid of the advances made by them to their customers for financing their export operations. These advances might be made until one year after the termination of the war. They were to be made upon the promissory notes of the borrowers guaranteed by such securities as the Corporation deemed necessary. Finally, the date



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on which the Corporation should begin the liquidation of its affairs was postponed from six months to one year after the ending of the war.

In considering the work of the War Finance Corporation as an agency for granting financial aid to undertakings engaged in war work or work contributory thereto, account should be taken of the fact that the Government had in the Revolving Fund of the Railroad Administration and in the War Credits Board of the War Department, organizations performing substantially the same function in their respective fields. An account of the first of these two organizations will be given in our account of the Railroad Administration. The second Board was created by the Secretary of War for the administration of the provisions of the Urgent Deficiencies Act of October 6, 1917, which provided that the Secretary of War, as well as the Secretary of the Navy, should have authority during "the period of the present emergency" to make advances from appropriations to contractors for supplies in an amount not to exceed 30 per cent. of the contract price of such supplies, such advances to be made subject to such conditions as he saw fit for the protection of the Government.

That this authority might be properly exercised the Secretary of War created a body known as the War Credits Board to pass upon all applications from contractors for advances to them. Melville W. Thompson, a financial accountant and lawyer of New York, then a lieutenant-colonel in the Signal Corps, was made President of the Board. In a published announcement regarding its work the Board stated that it did not seek in any way to act as a bank. It deemed that it should not come to the relief of contractors until they had

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exhausted their resources at the banks. It found, however, that there were many cases in which its assistance was urgently required and of the utmost value. Its authorization of advances thus ran into hundreds of millions of dollars. Undoubtedly very large sums were also advanced in this way by the Navy Department.

## CHAPTER V

### THE MOBILIZATION OF INDUSTRY

Analysis of the problem — The two elements of marshalling industrial resources and establishing arbitrary control — Industrial inventories of the Naval Consulting Board and the War Department — Organization of the Council of National Defense — Munitions Standards Board — General Munitions Board — The War Industries Board — Its duties, powers, and defects — Reconstitution of the Board as an independent administrative agency — Its powers and functions — Organization of procurement through the Clearance Committee, the Requirements Division, and the commodity sections — Organization and unification of individual industries on a national basis through the Chamber of Commerce of the United States — Conversion of industrial resources to war purposes through the Resources and Conversion Section and the Facilities Division — Determination of priorities in raw materials, transportation, and finished products through the Priorities Division — Promotion of commercial economies through the Conservation Division — Price fixing through the Price Fixing Committee — Purchasing for the Allies through the Allied Purchasing Commission — Demobilization of the War Industries Board — Continuance of certain functions by other agencies — Industrial Coöperation Service — Industrial Board of the Department of Commerce — Its abortive effort to stabilize prices of basic materials.

It has been pointed out that a prime characteristic of the late war was the necessity for the marshalling of practically the entire industrial resources of the Nation for its prosecution. Such a mobilization of industry required the doing of the following things: (1) the securing of as complete information as possible regarding the industrial requirements of the Government for war purposes and the essential needs of the general public; (2) the securing of data showing the extent to which existing resources and facilities were adequate to meet these essential needs of the Government and the

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public; (3) the taking of steps to secure an enlargement of these resources and facilities where they were found to be inadequate (*a*) by creating new sources of supplies or new establishments to manufacture the goods required, or (*b*) by converting existing establishments from the manufacture of articles not urgently needed to those the need of which was imperative; (4) the stoppage or curtailment of industrial operations not necessary for the prosecution of the war or the satisfaction of the essential needs of the public, in order that capital, plant, materials, and labor might thereby be released for essential work; (5) the determination of the use to which such resources and facilities as were available should be put to the end that they should be availed of in the way most urgently needed; and (6) the fixing of the price and other purchase conditions under which these resources should be secured.

These last two requirements introduced the factors of priority and price fixing which have been such characteristic features of the whole problem of meeting the industrial situation arising out of the war. Ordinarily the purchasing operations of both the public and the Government are carried on in what is known as a competitive market—that is, one in which the supplies actually or potentially available equal or exceed the demand. Under these conditions all persons and all services of the Government not only may secure the supplies required by them, but may secure them at reasonable prices as fixed by competitive conditions. Under the condition of acute shortage in respect to many essential commodities that obtained upon our entrance into the war, procurement operations had to be carried on in a non-competitive market, one in which there was not a sufficiency to meet the demands of all, and in which

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the prices demanded were consequently not regulated by competitive forces. In these circumstances it became imperative that authority should be vested somewhere to determine who should receive the commodities that were available and the prices that should be paid for them. If the several departments of the Government and the public were allowed to compete with each other for the limited supplies available, there would be no limit to which prices might not be advanced and profits secured, and there would be no assurance that proper services and persons would secure the supplies which it was desirable, from the standpoint of the successful prosecution of the war and the general welfare, they should secure. If excessive prices, profiteering, and the improper utilization of available supplies were to be avoided, it thus became necessary that the conditions governing the production, distribution, and utilization of industrial products should be arbitrarily fixed. The mobilization of industry thus meant not merely the marshalling of the industrial resources of the country for war purposes, but the subjecting of industry to direction and control in respect to many of its most important features.

The first step towards meeting this condition of affairs was taken as a matter of preparedness prior to the entrance of the United States into the war. The Naval Consulting Board, an account of which has been given,<sup>1</sup> early in 1916 appointed a committee to make a survey of the Nation's industrial facilities. This committee, under the direction of Howard E. Coffin, Vice-President of the Hudson Motor Car Company of Detroit, made an ambitious attempt to list, describe, and classify all

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<sup>1</sup> Chapter II.

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the industrial establishments of importance of the country. Regarding this investigation Mr. Coffin said, in testimony at a hearing of the Committee on Appropriations of the House of Representatives in 1917:

Under my direction during the past year there has been spent at a conservative estimate and entirely from private means, \$250,000 in the taking of the industrial inventory. This inventory, covering some 27,000 manufacturing concerns, is now in the office of the Council of National Defense.

That this inventory proved of value is probable. It does not appear, however, that very large use was made of it. It was prepared at a time when the nature of the problem and the character of the data needed were not clearly determined.

In the same year the Secretary of War, under authorization of Section 121 of the National Defense Act of June 3, 1916, appointed the so-called Kernan Board to make an investigation of the country's munitions resources with a view to determining the practicability of the Government's manufacturing its arms, munitions, and other war equipment. The report of this investigation was published as a Senate Document<sup>2</sup> under date of January 4, 1917.

Upon the creation of the Council of National Defense, that body immediately undertook, as one of its major activities, to carry forward this work of rendering available for war purposes the industrial resources of the country. By a resolution adopted on February 28, 1917, it created a body known as the Munitions Standards Board, to be composed of specially competent persons, who should serve without compensation, to coöperate

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<sup>2</sup> Senate Document No. 644, 65th Congress, 2d Session.



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with the War and Navy Departments in determining and adopting standards for the manufacture of munitions of war. Frank A. Scott was made Chairman of this Board.

A month later the Council, by resolution adopted on March 31, 1917, created another body known as the General Munitions Board to coördinate the munitions buying of the War and Navy Departments and to assist in the acquirement of raw materials and manufacturing facilities to meet their requirements. The organization of this larger Board embraced the civilian personnel of the Munitions Standards Board and in addition had in its membership representatives of the supply bureaus of the War and Navy Departments. The General Munitions Board was thus much better organized than the Munitions Standards Board to cope with the problem of marshalling the munitions resources of the country, by reason of its being in touch with the Government's munitions requirements and being in a position to exercise some supervisory control of the distribution of Government orders.

In the meantime the Advisory Commission of the Council created a number of committees of producers and manufacturers dealing with materials and manufactured articles entering into the production of munitions. To obviate the confusion and overlapping of jurisdiction and duties resulting from these arrangements, the Council, by resolution of July 28, 1917, created a new body to which it gave the name, War Industries Board, to take over the duties of the Munitions Standards Board and the General Munitions Board, which bodies were abolished. This Board was created "with the approval of the President," but aside from the sanction of the Chief Executive, this action of the

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Council was not unlike that which it took in creating its other subdivisions. The resolution provided that the several committees of the Council and the Advisory Commission advising on particular industries and materials, both raw and finished, were to be subordinated to the War Industries Board in order "to devolve clearly and definitely the important tasks indicated upon direct representatives of the Government not interested in commercial and industrial activities with which they will be called upon to deal, and to make clear that there is a total disassociation of industrial committees from the actual arrangement of purchases on behalf of the government."

The duties of the War Industries Board were defined in general terms in the resolution creating it as follows:

The Board will act as a clearing house for the war industry needs of the Government, determine the most effective ways of meeting them and the best means and methods of increasing production, including the creation or extension of industries demanded by the emergency, the sequence and relative urgency of the needs of the different Government services, and consider price factors, and in the first instance the industrial and labor aspects of the problems involved, and the general questions affecting the purchase of commodities.

It is possible to read into this broad authorization of power a desire on the part of the Council of National Defense to establish a central purchasing and priorities board possessing such control over war industries as was given by Congress to the Government. The Council, however, was limited by the Act creating it to the exercise of advisory and investigatory powers and could not delegate to a body subordinate to itself powers which it did not itself possess. The War Industries Board therefore, relied, in the exercise of its functions as a clearing

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house for war-industries needs, including its consideration of price factors and means for stimulating production, upon the support of the President and the Secretaries of War and of the Navy and upon the volunteer coöperation, on the one hand, of the heads of the supply bureaus of the War and Navy Departments, and on the other, of business men. Both the Secretary of War and the Secretary of the Navy issued departmental orders which assisted the Board in arriving at working relations with the supply bureaus of the Army and the Navy. The President, the Secretary of War, and the Secretary of the Navy were in a position to exercise broad powers of requisitioning and commandeering to back up the decisions of the Board that affected industries.

Notwithstanding the support the President and the Secretaries of War and the Navy gave to the Board, the system under which the important duties that have been enumerated were sought to be performed by a body which had no inherent administrative powers, and was but a subordinate agent of another body having no greater powers, gave rise to many difficulties in practical operation. The services of the Government upon which legal responsibility for action rested did not in all cases acquiesce willingly in a situation in which they had to defer to determinations of another body. The necessity they were under of doing so undoubtedly led at times to delay in the placing of important orders. The greatest weakness of the Board, however, lay in its lack of power to issue orders of mandatory force directly to the industrial and transportation interests of the country or to organize an administrative service for the enforcement of such orders.

Appreciation of these difficulties led to a strong demand on the part of the public, which was participated

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in to a certain extent by Congress, for the creation of a Ministry of Munitions or other organ having powers conferred by direct legislative grant to take the action required. The President, however, was opposed to the creation of such a body. To meet the needs of the situation he decided, acting under his general powers as Chief Executive and Commander-in-Chief of the armed forces, to take the War Industries Board from under the Council of National Defense, to make it an independent organ acting directly under his authority, and, in so doing, greatly to enlarge its powers. This he did, by his letter of March 4, 1918, appointing Bernard M. Baruch, Chairman of the Board, and outlining its duties on a much more comprehensive scale, and later more formally by an executive order dated May 28, 1918.

The letter to Mr. Baruch constituted in effect the organic act or charter of the Board, since it set forth specifically the powers and duties of the Board and its Chairman. Both its importance, and the fact that it gives an exceptionally clear and succinct statement of the purposes for which the Board was reconstituted, warrant our reproducing it in full. It reads as follows:

THE WHITE HOUSE,  
WASHINGTON, *March 4, 1918.*

MY DEAR MR. BARUCH:

I am writing to ask if you will not accept appointment as Chairman of the War Industries Board, and I am going to take the liberty at the same time of outlining the functions, the constitution and action of the Board as I think they should now be established.

The functions of the Board should be:

- (1) The creation of new facilities and the disclosing, if necessary, the opening up of new or additional sources of supply;
- (2) The conversion of existing facilities, where necessary, to new uses;

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(3) The studious conservation of resources and facilities by scientific, commercial, and industrial economies;

(4) Advice to the several purchasing agencies of the Government with regard to the prices to be paid;

(5) The determination, wherever necessary, of priorities of production and of delivery and of the proportions of any given article to be made immediately accessible to the several purchasing agencies when the supply of that article is insufficient, either temporarily or permanently;

(6) The making of purchases for the Allies.

The Board should be constituted as at present and should retain, so far as necessary and so far as consistent with the character and purposes of the reorganization, its present advisory agencies; but the ultimate decision of all questions, except the determination of prices, should rest always with the Chairman, the other members acting in a coöperative and advisory capacity. The further organization of advice I will indicate below.

In the determination of priorities of production, when it is not possible to have the full supply of any article that is needed produced at once, the Chairman should be assisted, and so far as practicable, guided by the present priorities organization or its equivalent.

In the determination of priorities of delivery, when they must be determined, he should be assisted when necessary, in addition to the present advisory priorities organization, by the advice and coöperation of a committee constituted for the purpose and consisting of official representatives of the Food Administration, the Fuel Administration, the Railway Administration, the Shipping Board, and the War Trade Board, in order that when a priority of delivery has been determined there may be common, consistent, and concerted action to carry it into effect.

In the determination of prices the Chairman should be governed by the advice of a committee consisting, besides himself, of the members of the Board immediately charged with the study of raw materials and of manufactured products, of the labor member of the Board, of the Chairman of the Federal Trade Commission, the Chairman of the Tariff Commission, and the Fuel Administrator.

The Chairman should be constantly and systematically in-

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formed of all contracts, purchases, and deliveries, in order that he may have always before him a schematized analysis of the progress of business in the several supply divisions of the Government in all departments.

The duties of the Chairman are:

(1) To act for the joint and several benefit of all the supply departments of the Government;

(2) To let alone what is being successfully done and interfere as little as possible with the present normal processes of purchase and delivery in the several departments;

(3) To guide and assist wherever the need for guidance or assistance may be revealed; For example, in the allocation of contracts, in obtaining access to materials in any way preëmpted, or in the disclosure of sources of supply;

(4) To determine what is to be done when there is any competitive or other conflict of interest between departments in the matter of supplies: For example, when there is not a sufficient immediate supply for all and there must be a decision as to priority of need or delivery, or when there is competition for the same source of manufacture or supply, or when contracts have not been placed in such a way as to get advantage of the fully productive capacity of the country;

(5) To see that contracts and deliveries are followed up where such assistance as is indicated under (3) and (4) above has proved to be necessary;

(6) To anticipate the prospective needs of the several supply departments of the Government and their feasible adjustment to the industry of the country as far in advance as possible, in order that as definite an outlook and opportunity for planning as possible may be afforded the business men of the country.

In brief, he should act as the general eye of all supply departments in the field of industry.

Cordially and sincerely yours,

WOODROW WILSON.

MR. BERNARD M. BARUCH,  
Washington, D. C.

Reading of this letter shows that the President by it created what was in effect an Industries Administration



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analogous in all essential respects to the Food and Fuel Administrations previously created. Taking the Board from under the Council of National Defense and making it an independent agency had the important consequence that thereafter the Board derived its legal powers directly from the President. It therefore had the power to exercise, within its field, all the powers of the President over industry entrusted to him by statute or possessed by him in virtue of his position of head of the armed forces of the Nation. This status is made very clear in the executive order of May 28, 1918, which read:

I hereby establish the War Industries Board as a separate administrative agency to act for me and under my direction. . . . The functions, duties and powers of the War Industries Board, as outlined in my letter of March 4, 1918, to Bernard M. Baruch, Esquire, its Chairman, shall be and hereby are continued in full force and effect.

The action thus taken by the President met in large measure the demand which had existed both inside and outside of Congress for the creation of a Ministry of Industry or of Munitions, although leaving to the War and Navy Departments the work of determining what military and naval supplies were required and the actual placing of the purchase orders. In other words, a distinct agency, with adequate powers, was created for performing the great work of mobilizing the industries of the country for war purposes and of meeting the conditions engendered by the war. Although the board type of organization was preserved, it is of interest to note that large powers were conferred directly upon the Chairman in respect to which the other members of the Board had only advisory or consultative powers.

An analysis of the functions thus conferred upon the Board shows that it had to do the following things:

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(1) act as an agency through which the war demands of the several services of the Government and of the public might be centralized, to the end that the general procurement programme of the Government and the public, in so far as essential requirements were involved, might be formulated and current information be had regarding the extent to which this programme was being met; (2) take steps for the reorganization of the industrial resources of the Nation so as to insure that the requirements so made known would be met as completely and speedily as possible; (3) determine priorities in respect to the production, delivery, and use of materials and supplies; (4) fix prices when such action was deemed desirable; (5) encourage in every way possible, and, if necessary order, producers and manufacturers so to conduct their enterprises as to insure that all unnecessary work would be eliminated, waste prevented, and all possible economies realized; and (6) have general charge of all purchasing for the Allies.

The Board immediately entered upon all of these duties with the utmost energy and took one step after another with great rapidity, bringing the whole industry of the country under what amounted to a strong central direction and control. It is impossible to give here an account of this action in detail. Some of the more important policies adopted and steps taken should, however, be described.

The first step to be taken by the Board was, as has been pointed out, that of securing as complete information as possible regarding the essential needs of the Government and the public in order that it might have clearly before it the nature and magnitude of the task confronting it. The old Board, that is, the Board prior

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to its being made an independent agency under the direction of Mr. Baruch, had what was known as a Clearance Committee, composed of representatives of the War and Navy Departments and certain other services, whose function it was to coördinate as far as they could the purchasing needs of the Government in respect to articles of which there was an insufficient supply. Mr. Baruch, on assuming charge, thoroughly reorganized this Committee. In September, 1917, it was given the additional duties of adjusting matters of priority between the Departments represented on the Committee and making the proper recommendations with regard to such adjustments to the Priorities Division, and giving information to the divisions of the War Industries Board regarding items in respect to which shortage developed, in order that they might arrange for an increased supply or, if necessary, increased facilities for their production. Later still the duties of the Committee were changed by the creation of a Requirements Division, which concerned itself with matters of future supply, leaving to the Clearance Committee only the work of clearing current and immediate purchases. The Committee prepared and published from time to time a so-called "Clearance List" of articles in which there was an actual or prospective shortage, and instructions were issued to all Government departments not to enter into negotiations for the purchase of any article on such a list until clearance by the Clearance Committee had been secured.

The Requirements Division to which reference has been made was created in order that there might be put into effect the provision of the President's letter to Mr. Baruch which required that he "should be constantly and systematically informed of all contracts,

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purchases, and deliveries in order that he may have always before him a schematized analysis of the progress of business in the several divisions of the Government in all departments." This Division was composed of Mr. Baruch himself, as Chairman of the War Industries Board; the Priorities Commissioner, an officer whose duties will shortly be described; representatives of the more important commodity sections of the Board; and representatives of the War and Navy Departments, the Emergency Fleet Corporation, the Food, Fuel, and Railroad Administrations, the Red Cross, and the Allied Purchasing Commission; in other words, the chief Government agencies having to do with the purchase or supply of articles needed for the prosecution of the war. It was the function of this Division to secure as far in advance as possible information regarding the prospective needs of the several services and to take the steps required for insuring that these needs would be met with the greatest possible dispatch.

In carrying out the latter part of its task the Requirements Division made use of the large number of so-called commodity sections which had been created by the Board. These sections constituted the backbone, as it were, of the administrative system of the Board. In view of their importance the nature of their work should be set forth with some particularity. This can best be done by quoting from a statement regarding the new Requirements Division and these sections, prepared by the Board and published in the *Official Bulletin* of April 8, 1918:

To take charge of particular problems of supply there have been created special commodity sections, and whenever necessary to handle raw materials or finished productions of which there is an actual or threatened shortage, or the price and

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production of which should be controlled for the protection of the United States Government, the Allies, or the civilian population, new sections will be created by the Chairman of the War Industries Board.

Each of these sections will be charged with the responsibility of collecting from the several departments of the Government, from the manufacturers and producers, and from committees representing them, and especially from the war service committees created under the supervision of the Chamber of Commerce of the United States and from any other reliable sources information concerning the production of the particular commodity with which the section is charged, this information to include available supplies, new sources of supply, methods to increase production, etc.

It is the purpose of the Chairman of the War Industries Board to make each of the section heads the sole Government agency for dealing with the industry for which his section is responsible. . . . The chief of the commodity section will study the problems referred to his section by the Requirements Division and will procure from all available sources, including the supply departments, information and data which will be helpful in the allocation of these requirements. At meetings of the commodity section the allocation of materials or facilities to meet the requirements will be determined, and in this distribution the representatives of the various supply departments of the Government, who are members of the section, will have full share.

If any member of the commodity section is dissatisfied with the decision he may, if he wishes, file a protest with the section head and also with the head of his division or department. Then if, for example, he belongs to one of the supply departments, his chief may appeal for reconsideration to the War Industries Board, whose decision will be final, subject only to modification between the Chairman of the War Industries Board and the respective Secretaries of War and the Navy, and the Chairman of the Shipping Board, whichever may be the one interested in the subject.

In addition to dealing with problems referred to them by the Requirements Division the commodity sections will have certain definite functions. The first will be the collection of information regarding industrial conditions already mentioned.



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Further, in pursuance of the President's direction to the Chairman of the War Industries Board, they will consider from time to time the extent of the existing services of production, the creation of new facilities, and the disclosure, if necessary the opening up, of new sources of supply and the conversion of existing facilities to new uses.

Each commodity section will consider market conditions pertaining to the materials or commodities over which it has jurisdiction, and will, when deemed advisable, recommend purchase plans to the several purchasing departments. In cases where it becomes necessary to control an industry in whole or in part by means of allotments, the appropriate section will determine the allotments of materials, commodities and facilities to the several departments of the Government and to the Allies and also the extent to which manufacturers and others, whether serving the civilian population or engaged in the manufacture of war supplies, shall be supplied.

When a commodity section comes to make its full report on the allocation of any specific requirements, the chief of such section will notify a member of the Priorities Division of the War Industries Board to be designated for such purpose by the Priorities Division, who will, with the section chief and the members, consider and tentatively determine the priority rating which such requirements will take when orders therefor have been placed. Such tentative rating will be observed by the Priorities Committee in connection with all applications for priority on orders covering such requirements, unless the Priorities Committee should (because of conditions changing in the time of intervening between the time of fixing of tentative rating and the application for priorities, or other good cause) conclude such rating to be improper; in which event the section chief and each member of the section fixing the tentative rating will be notified and have an opportunity to be heard before such rating will be changed. In the event a change is made the section chief or any member may appeal from such decision in the manner prescribed by the portion of the organization plan of the War Industries Board governing priorities.

We have quoted at length this statement regarding the



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commodity sections since it gives such an intimate insight into the workings of the War Industries Board as a whole. They represented an exceedingly effective organization for the systematic consideration of the whole problem of supply, both for military and civil purposes, while not interfering with the actual work of placing orders by the legally constituted purchasing agencies of the Government. Both in composition and in method of procedure these sections were of a character that permitted all interested parties to participate in the reaching of decisions. On all of the sections the departments of the Government chiefly interested were represented. In their work the sections maintained close relations with the war service committees of the industries represented, created under the auspices of the Chamber of Commerce of the United States. Finally, provision was made by which the decisions reached by these sections could be reviewed by the Priorities Committee and if need be by the Chairman of the War Industries Board.

The second, and in many respects the most important, of the duties of the War Industries Board consisted in the reorganization of industry, or, to state it in another way, the mobilization of industry for war purposes. The prime essential in effecting this mobilization consisted in the organization of each branch of industry in such a way that it could act as a unit and the Government itself could treat with it as a unit. In few respects did the Government find itself more handicapped upon its entrance into the war than in the absence of any such scheme of organization. It was impossible for the Government to get effective results under a system where it had to deal with individual firms. The situation was one in which, having determined its require-

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ments, the Government should be able to take up with each industry as a whole the matter of its ability to meet such requirements and allot orders in such a way that they would be most promptly met and justice be done as between individual firms.

In our account of the Council of National Defense we have pointed out the fundamental mistake made by that body in seeking to meet this need. It effected an organization of its own corresponding to trade lines but at the outset at least took no steps for the organization of the industries themselves. It created committees and sections for particular classes of commodities the members of which were largely drawn from the leading producers of these commodities. These committees and sections were agencies of the Government, not representatives of the industries. This led to the anomalous situation in which these bodies had to deal with themselves in the sense that they had to recommend the placing of orders with firms in which they were interested and the prices and other purchase conditions that were to be observed. This was a condition so contrary to correct practice and so liable to lead to abuse, if not positive fraud, that it could not be allowed to continue. Congress accordingly inserted in the Food Control Act of August 10, 1917, the following stringent provision prohibiting any person representing the Government in any way from taking action looking to the placing of orders with firms in which he was interested:

That no person acting either as a voluntary or paid agent or employee of the United States in any capacity, including an advisory capacity, shall solicit, induce, or attempt to induce any person or officer authorized to execute or to direct the execution of contracts on behalf of the United States to make any contract or give any order for the furnishing to the

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United States of work, labor, or services, or of materials, supplies, or other property of any kind or character, if such agent or employee has any pecuniary interest in such contract or order, or if he or any firm of which he is a member, or corporation, joint-stock company, or association of which he is an officer or stockholder, or in the pecuniary profits of which he is directly or indirectly interested, shall be a party thereto. Nor shall any agent or employee make, or permit any committee or other body of which he is a member to make, or participate in making, any recommendation concerning such contract or order to any council, board, or commission of the United States, or any member or subordinate thereof, without making to the best of his knowledge and belief a full and complete disclosure in writing to such council, board, commission, or subordinate of any and every pecuniary interest which he may have in such contract or order and of his interest in any firm, corporation, company, or association being a party thereto. Nor shall he participate in the awarding of such contract or giving such order. Any willful violation of any of the provisions of this section shall be punishable by a fine of not more than \$10,000, or by imprisonment of not more than five years, or both: *Provided*, That the provisions of this section shall not change, alter or repeal section forty-one of chapter three hundred and twenty-one, Thirty-fifth Statutes at Large.

In the meantime the Council itself had come to a realization of the error it had committed in organizing its commodity committees and sections on the basis described and had taken steps to correct it. Thus, speaking before the War Convention of American Business held under the auspices of the Chamber of Commerce of the United States in September, 1917, the Director of the Council said:

The organization of industry effected by the Government for war purposes was to select certain men in each line of industry and appoint them on committees, which committees were to advise and assist the Government in regard to its needs

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in each industry. Some men in the industry who were not on the committees naturally felt that they were not represented, particularly as they may have had nothing to say in regard to what men were appointed on the committee. The very method by which the committees were created made it possible, although it has not been in any instance a fact, to have the industry represented to the Government in a way that might be unfair to some of its members. The business men on the committees would seem to have an advantage over the men who were not on the committees. To correct possible abuse Congress felt it necessary to pass Section 3 of the Food Control Act. . . . Each industry would best serve the Government if it were organized on a nation-wide basis with complete representation of all members of the industry. Organization along state lines or by localities is admirable for chambers of commerce and local civic associations, but in our industrial life is not so bounded. Industries are not largely affected by state lines. A national organization is the form of organization that will best serve the Government, both in time of war and in time of peace. If we had had such an organization at the outbreak of the conflict the problem of mobilizing industry for war would have been simple.

Steps were accordingly taken by the Council of National Defense, acting through the War Industries Board which was then a subordinate agency of the Council, to bring about an organization of the industries of the country along these lines. In this work the Government had the powerful coöperation of the Chamber of Commerce of the United States. That body, in fact, undertook the work of effecting such an organization. The Chamber was quick to see the great advantages that would accrue, in time of peace as well as war, through having the industries of the country organized on this national basis. These advantages were excellently set forth in a pamphlet issued to the public by the War Service Executive Committee of the Chamber under date of February 28, 1918:

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I. They provide an organized method by which the Government can quickly present to *all* the factors in an industry its needs in a particular line and receive dependable information as to how they may be met and what facilities are available for use. Necessary publicity as to Government needs thus presented simultaneously to all interests in a line prevents the possibility of unfair advantage through the presentation of information of this character to separate firms or individuals.

II. They can arrange promptly for gathering figures as to cost of production and from time to time report to Government agencies changes in conditions which affect such cost. Such cost sheets can, of course, be checked independently by Government authorities.

III. They can aid effectively in the distribution and conservation of raw material essential for war output.

IV. They provide organized machinery to collect information and advise Government as to what the needs of industry will be to meet the future requirements of Government and as a result comprehensive plans may be made well in advance for any necessary readjustments of industry.

V. When committees are chosen by the industries themselves, so that they are representative of *all* interests in each industry, the appointment of the ablest and best posted men in each line is assured and the basis for any allegation of favoritism in selection or preferential treatment by Government agencies is eliminated.

VI. The possibility of complaints that business men chosen by the Government for committee work are in a position to influence privately the placing of contracts with concerns in which they are financially interested, is likewise removed.

VII. If committees are organized by the industries themselves, the Government is in no way responsible for them and is free to consult with them as their merits may justify.

VIII. The committees are able to advance rapidly the process of standardization and to eliminate in manufacturing lines unnecessary sizes, styles and shapes, thus conserving raw material, labor and capital.

IX. The committees can bring to the attention of the Government unemployed facilities which may readily be adapted to the production of supplies needed by the Government and

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thus avoid the misuse of money, material and labor involved in extension of existing plants. The saving of time in this process is also of great advantage.

Utilization of the committees has these advantages:

1. A committee chosen by an industry having the confidence of all the factors in the line, and for which the industry is responsible, is available at all times on call of the Government to meet with Government agencies for conference with reference to any Government needs or policies.

2. It can give to Government agencies complete information as to all the individuals, firms and corporations in the line, with facts as to their facilities and management.

3. If the Government places its needs before such a committee in planning a certain purchase, the raw material market can be protected and inflation prevented.

4. The committee can have cost figures prepared on the commodity or merchandise desired and place before the Government cost sheets on the basis of which the Government may fix prices fair to all.

5. The committee can make recommendations as to the distribution of orders to prevent bad location, railroad congestion and labor disturbance.

6. The Government experts can check the cost sheets submitted and the recommendations as to distribution and make their own decisions which industry will gladly accept if reached in an orderly way.

7. Each factor in an industry will have to take its share of Government business where full production is required and advantage to some will be prevented.

8. The Government may be constantly advised by the committee in an authoritative way as to changing conditions and plans may be made systematically to anticipate emergencies and meet future needs.

9. Individual applications for priority have in the past greatly complicated operations of the priority system. In many lines priority applications can be cleared through the committees of the industries and much better results thereby secured.

10. Such committees may likewise be utilized to great advantage in dealing with the fuel, transportation, labor, reconstruction



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tion, foreign trade, and similar problems where an industry as a whole should be considered rather than a part of it or individuals in it.

In effecting such an organization of the industries of the country the procedure followed by the Chamber was to have each trade that already had a national organization appoint a committee authorized to represent it, and when a trade was not organized, to secure its organization and the appointment of such a committee. In all cases it was made clear that the committee should have as its function the representation of the interests of the entire trade and not merely those of the members of the organization. Especial emphasis was laid on the desirability of having the little as well as the big men represented and protected. The efforts of the Chamber were crowned with success in almost every case, and in a surprisingly short time the work was practically completed. These committees were themselves integrated into a general system through the Chamber of Commerce of the United States.

We have felt justified in setting forth at some length this movement which resulted in the organization of industry of the country, not only on account of its great importance in respect to the prosecution of the war, but because of the great influence it will undoubtedly have in putting the industries of the country upon a more efficient basis following the peace. As Harry A. Wheeler, President of the Chamber of Commerce of the United States, said in an article contributed to the organ of the Chamber, *The Nation's Business*, for August, 1918:

Organization for war service is giving business the foundation for the kind of coöperative effort that alone can make the

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United States economically efficient enough to take its place with the nations in world trade. . . . Creation of War Service Committees promises to furnish the basis for a truly national organization of industry whose proportions and opportunities are unlimited. . . . The integration of business, the expressed aim of the National Chamber, is in sight.

Certain it is that had this organization of the industries of the country not been effected, it would be difficult to see how the War Industries Board could have taken the rapid and radical steps that it did take to secure the speeding up of essential industries, the curtailment of the operations of those that were non-essential, the effecting of economies, the placing of war orders, the determination of priorities, and the fixing of prices.

It has been pointed out that the War Industries Board had in its commodity sections technical units of organization which could represent it in its relations with these producers' committees. In addition to these technical sections the Board had also two divisions, known as Resources and Conversion Section and Facilities Division, the duties of which were to take the steps necessary for the conservation of the resources of the country and their conversion to war needs. Regarding the work of these two divisions the Board in a statement published on August 27, 1918, said :

It will be the duty of the Facilities Division to consider and determine all questions of need or suggested need of new and additional facilities for the conduct of the war. In this connection, of course, the Division will work in close coöperation with the Resources and Conversion Section of the Board, which has already turned to war work hundreds of plants made idle or partly so by the changed conditions of the times. Whenever the conversion or enlargement of existing facilities

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can be made to meet the requirements of any new or exceptional demand, full advantage will be taken of the information gathered by the Resources and Conversion Section regarding industrial and supply conditions in all parts of the country.

The duties of the Resources and Conversion Section were, as indicated by its title, those of securing knowledge of industrial resources and converting them to war purposes. In this work it was aided by a field establishment of 30 regional advisors appointed by the War Industries Board. The object of these regional organizations, as described in a statement published in the *Official Bulletin* of July 18, 1918, was:

To furnish the Government with the necessary knowledge of national conditions in providing new resources and converting industries to war work. As the various departments of the Government develop new requirements in the war program they are presented to the business men of the country through these regional organizations which serve as points of contact between the War Industries Board and the business men.

This system was further perfected by the appointment of what were known as sub-regional chairmen in all of the important cities of each district. These sub-regional chairmen, however, unlike the regional advisors, were representatives of the business men of their cities and thus furnished the means through which the regional advisors got into immediate touch with the business interests of their districts.

The third branch of the work of the War Industries Board that has been mentioned was that of determining priorities. This authority had to be exercised in a number of ways. The Board had to determine the order of precedence of different industries in securing fuel and

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the raw materials needed by them in their operations when the supply was insufficient to meet all needs; the order of precedence to be observed by the railroads and other transportation agencies in hauling these materials or the products of industrial establishments; and, finally, the disposition that should be made of products. The latter involved not only a determination of whether the Government, our allies, or individual concerns should get these products, but the particular ally or branch of our Government that should be preferred in respect to their receipt. It was through the use of this power and that of price fixing, to be hereafter described, that the Government, acting through the War Industries Board, took over the control, if not the detailed management, of the industries of the country. It is hardly necessary to point out the exceedingly difficult problem that was presented in exercising this power efficiently.

Authority to exercise this power of priority control was never granted by Congress in so many words. It existed as a power incidental to the exercise of other powers that were conferred upon the President or other officers of the Government. Thus, the National Defense Act of June 3, 1916, gave plenary powers to the President to place orders for the manufacture of any supplies needed by the Government for war purposes with any individual, firm, or corporation engaged in the manufacture of such supplies or whose plant was capable of being transformed so as to manufacture such supplies, which orders should be mandatory and be given preference over all other orders. If satisfactory arrangements as regards prices and other conditions of manufacture could not be agreed upon, the Secretary of War was authorized to take over and operate any plant in respect to which such arrangements could not be reached.

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Following is a copy of the section conferring these powers upon the President and the Secretary of War :

SEC. 120. *Purchase or Procurement of Military Supplies in Time of Actual or Imminent War.*—The President, in time of war or when war is imminent, is empowered, through the head of any department of the Government, in addition to the present authorized methods of purchase or procurement, to place an order with any individual, firm, association, company, corporation, or organized manufacturing industry for such product or material as may be required, and which is of the nature and kind usually produced or capable of being produced by such individual, firm, company, association, corporation, or organized manufacturing industry.

Compliance with all such orders for products or material shall be obligatory on any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof and shall take precedence over all other orders and contracts theretofore placed with such individual, firm, company, association, corporation, or organized manufacturing industry, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any plant equipped for the manufacture of arms or ammunition, or parts of ammunition, or any necessary supplies or equipment for the Army, and any individual, firm, association, company, corporation, or organized manufacturing industry or the responsible head or heads thereof owning or operating any manufacturing plant, which, in the opinion of the Secretary of War shall be capable of being readily transformed into a plant for the manufacture of arms or ammunition or parts thereof, or other necessary supplies or equipment, who shall refuse to give to the United States such preference in the matter of the execution of orders, or who shall refuse to manufacture the kind, quantity, or quality of arms or ammunition, or the parts thereof, or any necessary supplies or equipment, as ordered by the Secretary of War, or who shall refuse to furnish such arms, ammunitions, or parts of ammunition, or other supplies or equipment, at a reasonable price as determined by the Secretary of War, then,

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and in either such case, the President, through the head of any department of the Government, in addition to the present authorized methods of purchase or procurement herein provided for, is hereby authorized to take immediate possession of any such plant or plants, and through the Ordnance Department of the United States Army, to manufacture therein in time of war, or when war shall be imminent, such product or material as may be required, and any individual, firm, company, association, or corporation, or organized manufacturing industry, or the responsible head or heads thereof, failing to comply with the provisions of this section shall be deemed guilty of a felony, and upon conviction shall be punished by imprisonment for not more than three years and by a fine not exceeding \$50,000.

The compensation to be paid to any individual, firm, company, association, corporation, or organized manufacturing industry for its products or material, or as rental for use of any manufacturing plant while used by the United States, shall be fair and just.

The Secretary of War shall also make, or cause to be made, a complete list of all privately owned plants in the United States equipped to manufacture arms or ammunition, or the component parts thereof. He shall obtain full and complete information regarding the kind of arms or ammunition, or the component parts thereof, manufactured or that can be manufactured by each such plant, the equipment in each plant, and the maximum capacity thereof. He shall also prepare, or cause to be prepared, a list of privately owned manufacturing plants in the United States capable of being readily transformed into ammunition factories, where the capacity of the plant is sufficient to warrant transforming such plant or plants into ammunition factories in time of war or when war shall be imminent; and as to all such plants the Secretary of War shall obtain full and complete information as to the equipment of each such plant, and he shall prepare comprehensive plans for transforming each such plant into an ammunition factory, or a factory in which to manufacture such parts of ammunition as in the opinion of the Secretary of War such plant is best adapted.

The President is hereby authorized in his discretion, to appoint a Board on Mobilization of Industries Essential for Mili-



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tary Preparedness, nonpartisan in character, and to take all necessary steps to provide for such clerical assistance as he may deem necessary to organize and coördinate the work hereinbefore described.

Similar powers were given to the Secretary of the Navy in the Naval Appropriation Act of March 4, 1917. The Urgency Deficiencies Act of June 15, 1917, conferred analogous powers upon the President in respect to the placing of orders for ships and ship materials and, if necessary, the requisitioning of ship-building plants. The Food and Fuel Control Act of August 10, 1917, authorized the President to commandeer foods, feeds, and fuel, and gave him almost complete control over the distribution of coal and coke.

The Act of May 29, 1917, amending the Interstate Commerce Act, authorized the Interstate Commerce Commission to regulate and control the car service of interstate carriers, including the right, either upon complaint or upon its own initiative, to suspend the operation of any or all rules, regulations, or practices established with respect to car service, and to make such directions with respect to car service as in its judgment would best promote the public interests. . This power to control transportation was greatly increased by the Act of August 10, 1917, amending the Interstate Commerce Act, known as the Preferential Shipments Act, which provided that:

During the continuance of the war in which the United States is now engaged the President is authorized, if he finds it necessary for the national defense and security, to direct that such traffic or such shipments of commodities as, in his judgment, may be essential to the national defense and security, shall have preference or priority in transportation by any common carrier by railroad, water, or otherwise. He may give these directions at and for such times as he may determine, and may modify, change, suspend, or annul them, and

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for any such purpose he is hereby authorized to issue orders direct, or through such person or persons as he may designate for the purpose, or through the Interstate Commerce Commission.

It will be seen that although the Government had given it no authority to issue priority orders having mandatory force except in the case of transportation, it had adequate powers to enforce compliance with any order or request of this character that it might issue by making use of its powers to control transportation or the supply of fuel or in the last resort to commandeer many classes of undertakings. Legally, therefore, the priority orders issued by it were, for the most part, but requests. Actually they had the force of orders, since the firms affected knew that if they did not comply with them, their supply of fuel would be cut off, their materials and products would not be received for transportation, and in many cases their establishments would be seized by the Government. Throughout its history, therefore, the War Industries Board had little or no trouble in securing compliance with all orders or requests issued by it.

The Commodity sections in a tentative and preliminary way determined priorities. That this question of priority might be handled in a comprehensive way in which all interests of the several departments of the Government, the civil population, and our allies might be considered, there was need for some central body to review the recommendations of the commodity sections and to make decisions of a general character. The first step towards the creation of such a central organ with power to determine priorities was taken by the President through the appointment on August 17, 1917, of Judge R. S. Lovett as Priority Commissioner to admin-

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ister the priority powers in respect to transportation granted by the Preferential Shipments Act of August 10, 1917. Judge Lovett, who was a member of the Advisory Commission of the Council of National Defense and of the War Industries Board, then attached to the Council, was also designated by the Council as the officer to have in charge the exercise of all powers of declaring priority in so far as such powers existed in virtue of the several Acts of Congress to which reference has been made. To assist him in the discharge of these duties, Judge Lovett created a Priorities Committee, of which he was Chairman, composed of representatives of the War and Navy Departments and certain other important services. Both the office of Priority Commissioner and the Priorities Committee were attached to and made a part of the War Industries Board.

Upon the reconstitution of the War Industries Board as an independent agency and the creation of the Food, Fuel, and Railroad Administrations, a reorganization of the work of priority determination had to be effected. Priority in respect to transportation of fuel was transferred to the Fuel Administration, that body, however, being guided in ordering the distribution of fuel to industries and plants by the "Preference List" compiled and promulgated by the Priorities Board of the War Industries Board in so far as it classified such industries and plants according to their relative importance. In like manner all questions in respect to priority in the supply of food products passed over to the Food Administration.

For the exercise of priority in respect to all other commodities, which included almost every industrial product other than food and fuel, the War industries Board created two new agencies — the Priorities Board and the

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Priorities Commissioner. The Priorities Board took the place of the old Priorities Committee and was composed of the Priorities Commissioner as Chairman, the Chairman of the War Industries Board, and representatives of the War and Navy Departments, the Railroad, Food, and Fuel Administrations, the War Trade Board, the United States Shipping Board Emergency Fleet Corporation, the War Labor Policies Board, and the Allied Purchasing Commission.

This body, it will be noted, was so constituted as to give representation to all the great war agencies of the Government. Although the Railroad, Fuel, and Food Administrations exercised powers of priority in their fields, they did so in close conjunction with the general Priorities Board on which they had representation. The decisions of this Board were subject to review only by the Chairman of the War Industries Board and the President. The Priorities Commissioner was the officer through whom the determinations of the Priorities Board were put into effect.

From the administrative standpoint the work of the Priorities Board may be divided into the two classes, of determining (1) priorities in respect to the use of finished products and (2) priorities in respect to the use of raw materials and partly manufactured products by producing concerns. Although extremely important, the work of the first class, that of determining priorities in respect to supply as between the Allies, the United States Government, and the American public, and the particular Allies, branches of the United States Government, and branches of the consuming public to be preferred, offered few technical difficulties. The work of determining priorities in respect to the securing of raw materials, fuel, and other facilities by the industrial

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establishments of the country was, however, a work of great magnitude. It meant the classification of the industries of the country according to their essential characters for the prosecution of the war and the satisfaction of the imperative needs of the public, and the placing of individual concerns in many cases on what amounted to a rationing basis, where they could not receive the materials needed by them except as they secured a permit or license authorizing them to do so. This task of determining the extent to which a given industry or establishment should be deemed to be essential was one of extreme difficulty because of the many considerations of which account had to be taken. A product might not at first sight seem to be essential and yet upon examination be found to be so in order that some directly essential work might go forward. Goods not in themselves essential might be essential from the standpoint of our foreign trade. The country was a heavy importer of raw materials. These imports had to be paid for either in cash or with other goods. As it was of prime importance that we should conserve our gold supply as a basis for our expanding credit structure, it was necessary that our export trade should not be unduly hampered. Finally, it was desirable that as many individual plants as possible should be allowed to continue in operation, even though on a reduced scale, in order that they might be prepared to resume full-scale operations as soon as peace was declared. A complete shutdown would have meant permanent ruin to many of them.

The Priorities Board, acting in large part through, or upon the advice of, the technical commodities sections of the War Industries Board, met these several considerations in an eminently practical way. As a basis for

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all of its work it sought to classify the industries of the country according to their essential character. This classification was revised from time to time as conditions changed or new data came to light. The classification finally adopted and issued as Circular No. 20 of the Priorities Division of the War Industries Board, September 3, 1918, provided for the classification of all preferred industries into four classes known as Class I, Class II, Class III, and Class IV, respectively, all other industries constituting in effect Class V, although not so designated.

Class I was made to consist of all industries of "exceptional importance" in connection with the prosecution of the war. They constituted the industries the requirements of which were to be fully satisfied in preference to those of any other class. Classes II, III, and IV comprehended those industries the requirements of which should be given preference over the industries not classified, that is, those falling in Class V. No complete or absolute preference was provided for as between these classes. The division into classes had for its purpose merely a general indication of the relative importance of the industries listed. It was not, for example, intended that the requirements of Class II should be fully met before any of the requirements of Class III should be met. The circular referred to thus stated:

It will often happen that after satisfying the requirements of Class I the remaining available supply would be less than the aggregate requirements of the other three classes, in which event such supply will be rationed to the industries and plants embraced within those classes. In determining a basis for such rationing the relative importance of each industry and plant, according to its class rating, must be considered. It has been found impracticable to prescribe for rationing purposes any general rule or formula, but the Priorities Board



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will from time to time, after conference and in coöperation with each of the several governmental agencies charged with the distribution thereof, determine particular principles, values and methods of application, and labor, respectively, to the end that proper recognition and weight may, as far as practicable, in each case be given to the relative importance of Class II, Class III and Class IV.

In assigning the several industries to one or the other of these four classes the circular stated that consideration and weight were given not to any one but all of the following factors: (1) the intrinsic importance of the product itself for or during the war and the urgency as measured by time of the demand or the use to which it is to be put; (2) the necessity for maintaining or stimulating and increasing the total quantity of production which in turn depended largely upon the relation of the supply to the demand for essential uses; and (3) the proportion of the capacity of the industry or plant which was devoted to the production of the essential product. This work of classification was extended not only to industries as a whole, but to individual plants. Circular No. 20 then contained a long list of plants, classified by states, indicating for each the class to which it belonged.

This classification of industries and plants constituted merely the basis for the work of the Priorities Board in determining priorities. Currently the Board had to determine the priority that should be observed by industries and plants in the execution of particular orders. This it did by dividing all orders and work into five general classes, known as Class AA, Class A, Class B, Class C, and Class D, with subdivisions of each class indicated by suffix numbers, such as Class AA-1, Class AA-2, etc. Class AA comprised only emergency war

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work of an exceptional and urgent character; Class A, all other war work; Class B, orders and work which, while not primarily designed for the prosecution of the war, yet were of public interest and essential to the national welfare or otherwise of exceptional importance; Class C, all orders and work not covered by priority certificates issued by the Priorities Board or war orders not taking an automatic rating; and Class D, all orders and work not embraced in any of the preceding classes.

The regulations issued by the Priorities Board required manufacturers to observe this rating in meeting orders placed with them. This meant merely that precedence should be given to orders of a higher rating over those of a lower rating only in so far as might be necessary to insure delivery on the date specified in the order. It did not mean that work should cease on orders of a lower classification except as necessary to enable orders of a higher rating to be completed within the time specified. Under this system it was necessary for individual firms desiring to have orders filled to make application to the Priorities Board for the issue of "priority certificates," which certificates would determine the order of precedence that would be observed by firms in filling them. It should be noted again, as above set forth, that this system of priority orders did not relate to food, fuel, transportation, or exports, all matters of priority in these fields being administered by the Food, Fuel, and Railroad Administrations and the War Trade Board, although these bodies, through their representation on the Priorities Board, sought to make their actions conform with those of the War Industries Board.

The classification of industries and plants according to their character from the standpoint of the essential

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nature of their work and of determining priority in respect to the placing and execution of orders constituted but one phase of the work of the Priorities Board. Another phase consisted in the taking of such action in respect to each industry as would insure that the most effective use should be made of the materials secured by it and that it should be run with the maximum of efficiency, to the end that the industrial resources of the country should be conserved and directed to the meeting of the essential needs of the Government and the public. To this end one industry after another was taken up for intensive study with a view to the formulation of rules to be observed by them in the conduct of their business. The work done by the Board in this direction is excellently set forth in Circular No. 5, issued on July 22, 1918, prescribing the conditions to be observed by the iron and steel trade. Under the heading of "Rationing Industries," it said:

*Rationing industries.*—As it is obviously impossible to supply all industries utilizing iron and steel in their activities with their normal supply, the War Industries Board, through its Priorities Division, coöperating with the commodity section dealing with the particular industry or product involved, with the Conservation Division and representatives of other interested Government agencies, has inaugurated a system of industrial hearings in which committees representing the entire industry appear and present (a) the normal requirements of such industry for iron and steel, (b) their reasonable requirements under war conditions, (c) the stocks now on hand in each plant, and (d) the fuel consumed, and all other pertinent facts.

A portion at least of the product of nearly every industry may be properly classed as a direct or indirect war requirement or essential to the civilian population, but in many the percentage of nonessentiality predominates. On the other hand,

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nearly every industry, including so-called war industries, have a percentage of nonessentiality in their production.

It is the policy of the War Industries Board, through the hearings mentioned, to take counsel with each industry, determine the extent to which it can and should as a war measure curtail its production — and particularly curtail its consumption of iron and steel — limiting its output to essential uses as far as practicable, but without destroying or unnecessarily injuring any industry or legitimate business. On these hearings the chairman of the Conservation Division or his representatives give the industry the benefit of their expert knowledge and research into methods of standardization and substitution, and cooperate with the industry in (a) reducing needless lines, varieties, and sizes of products, thereby securing economy in manufacture and reducing the volume of stocks which the manufacturer, wholesaler, and dealer are required to carry, (b) through the elimination of wasteful styles, models, and methods, greatly conserving materials, and (c) through the substitution of products or materials not needed for those that are needed for war work, conserving the latter without unnecessarily reducing the output of the industry.

When the maximum conservation of materials and products has been attained through these processes of standardization, substitution, and curtailment, the representatives of the War Industries Board participating in these conferences indicate to the industry their views as to the maximum consumption by the industries of the materials and products in question, treating the industry as a unit where such a course is practicable.

The chief of the Commodity Section dealing with the particular industry then prepares a schedule apportioning such indicated maximum of materials or products to each plant on a basis which will enable each member of the industry to procure the same per cent of his normal production as all other members, taking into account the existing stocks of each. When this has been done each plant places its orders for the amount apportioned to it with its regular sources of supply, and such orders take a Class C rating.

The War Service Committees of those industries which have not as yet participated in such hearings will be given an appointment on application to the Priorities Commissioner or

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to the chief of the appropriate commodity section of the War Industries Board.

This work of the Priorities Board, of putting the industries of the country upon a more efficient basis, was ably seconded by another division of the War Industries Board — the Conservation Division. The Council of National Defense, almost immediately upon its organization, realized that one of the most effective means of increasing the man-power and industrial resources of the Nation for war work consisted in having the industrial and commercial undertakings of the country do everything possible to increase the efficiency with which their operations were conducted, to reduce waste in the use of materials, and to eliminate those services which were not absolutely essential for the conduct of their work. Every economy realized in this way, it was appreciated, would release men and material for more essential work. Accordingly, by a resolution adopted on March 24, 1917, it provided for the creation of a board of five members to be known as the Commercial Economy Board, the duties of which should be "to investigate and advise in regard to the economic distribution of commodities so as to conserve both capital and personnel for the national defense." A. W. Shaw, Editor of *System*, was made Chairman of this Board.

The field of activity of this body, it will be noted, was that of distribution rather than that of production.<sup>3</sup> Appreciation was had of the fact that in the general readjustment that would need to be made, the heaviest drafts of men and equipment would fall on distributive trades, since it was from these, rather than the produc-

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<sup>3</sup> Its operations are described in greater detail in this series in Louis E. Van Norman, *War Time Control of Commerce*.



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ing industries, that men could best be spared. It sought, consequently, to determine what economies might be effected in these trades without unduly restricting them in meeting the needs of the civilian population.

One of the first subjects of investigation undertaken was the practice of bakers of accepting returns of unsold bread from retailers. Agents were sent to a number of wholesale bakeries, conferences were held by the Board with bakers from various cities, and copies of a schedule of inquiries were sent to representative members of the trade in all parts of the United States for the purpose of determining the advisability of discontinuing this practice. With few exceptions the bakers consulted were willing to discontinue the practice. In order to make the discontinuance general, circular letters were sent out on June 6, 1917, calling on all wholesale bakers in the United States to stop accepting returns of unsold bread, and fixing July 10, 1917, as the final date for putting this request into effect. The discontinuance of this practice, it was estimated, besides saving bread enough for 200,000 people, would do away with the useless handling of about four per cent. of the bread baked, between the bakeries and the retailers or consumers, and would thus release men and equipment needed in other essential work.

Another subject of investigation undertaken by the Board was the return-of-goods privilege allowed by retail dry-goods and department stores. Practically all the store managers consulted by the Board agreed that this privilege was greatly abused and could be materially curtailed, if not entirely eliminated, without serious inconvenience. The Board therefore recommended that this practice be rigorously curtailed. A general compliance with this recommendation, it was



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estimated, would result in releasing many accountants, clerks, packers, checkers, deliverymen, and delivering equipment for more essential service.

The waste in retail deliveries generally, of which the above are only two examples, occupied much of the attention of the Board. Conferences were held with representative merchants, agents were sent to typical stores in the leading cities, and schedules of inquiry were distributed throughout the country. By this means the Board gathered data and obtained opinions from about 500 retail grocery stores and more than 1,000 retail dry-goods and department stores in all parts of the country. Information concerning coöperative delivery systems in over 35 cities and towns was obtained for the Board by the National Wholesale Grocers' Association. As a result of these investigations the Board called on the trades for a modification of their delivery services, gave advice concerning coöperative delivery systems, and pointed out to store patrons that a package under the arm was a mark of patriotism.

Another subject which engaged the attention of the Board was the needless multiplicity of styles. It was reported to the Board that in some lines the number of seasonal styles could be cut down 25 to 50 per cent. without inconvenience to the consumer. This multiplicity of styles meant a larger and slower turnover, more labor and expense for selling and greater loss on account of depreciation. The Board studied several lines of business with the view to determining what style simplifications could be brought about without hardship to business or to the public. In every case it found both the producers and the distributors willing to co-operate in avoiding excessive style changes.

In the clothing trades investigations were made by

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agents of the Board, correspondence was had with thousands of representative men in the trade, informal discussions were held with individuals, and a general conference was held by the Board in Washington which was attended by representatives of national associations of woolen and worsted manufacturers, of men's and women's garment makers, and of retail clothiers. As a result of these activities the Board asked the cloth manufacturers to produce fewer designs and to use re-worked wool or cotton mixtures as far as practicable. The men's and women's garment makers were asked to avoid unnecessary multiplicity of styles and to leave off features that violated the principles of economy in yardage. The leaders in all of these lines pledged adhesion to this programme. Similar steps were taken with regard to the shoe trade, in which the Board had the coöperation of a joint committee of the national shoe-trade associations.

Propaganda work for economy in the production and distribution of commodities was also carried on among consumers. By means of motion pictures, newspaper and magazine articles, advertisements, signs in stores, and special pamphlets for women's organizations, and in some cases by proclamations of governors of states, attention was called to the importance of effecting these economies and instruction was given consumers concerning the manner in which they could assist in this work.

In its investigations and propaganda work the Board utilized not only its own members and staff, but also the State Councils of Defense and state officials, the Chamber of Commerce of the United States, special committees of local chambers of commerce and boards of trade, producers, distributors, and other business men's organizations, the public press, the mails, and motion

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pictures. Especially did the Women's Committee of the Council of National Defense assist the Board in bringing matters to the attention of housekeepers and other women consumers.

Early in May, 1918, this Board was transferred from the Council of National Defense to the War Industries Board, where it was reorganized as a Conservation Division and the scope of its duties enlarged so as to cover the work of effecting economies in every branch of industry. This Division proved to be a very energetic body. Especially did it seek to conserve man power and materials by reducing the number of different types, patterns, or styles of articles manufactured. One industry after another was taken up for intensive study, and agreements were reached under which manufacturers would cease, after a given date, to manufacture more than a very restricted number of variations of their products. Attention was also given to the use of substitutes in place of other materials of which there was a scarcity. The method pursued by the Division in performing its functions was thus described in the notice given to the public on July 24, 1918, of the steps that had been taken to conserve the use of tin:

The Board calls meetings of representatives of each important trade using tin, states the necessity for economy, asks for patriotic coöperation and seeks advice as to how to get the results desired. Each industry is asked to organize, to consider the problem and submit specific recommendations. These recommendations are digested and sent to everyone in each trade concerned. Conferences are held with those who may not agree with the recommendations so as to get as complete unanimity as possible. A set of recommendations or regulations is then drawn up for each industry and these are enforced by the War Industries Board.

It is impossible to calculate the economies that were

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thus effected by simplifying and standardizing the industrial work of the country. That they were very large is certain. Thus, for example, the regulations promulgated for the agricultural-implements industry provided for the discontinuance of the manufacture of 3,000 surplus types of plows and tillage implements. Out of 303 types of plows only 65 were to be manufactured after December 1, 1918. Of over 300 types of corn planters and drills only 10 were to be manufactured, and of 107 types of harrows, only 44.

Another exceedingly important branch of the work of the War Industries Board was that of determining the prices that should be paid for commodities the inadequate supply of which prevented the adjustment of prices upon a fair basis through the working of competitive forces. This work was performed by a Price Fixing Committee, composed of Robert S. Brookings as Chairman, Bernard M. Baruch, Chairman of the War Industries Board, W. B. Colver, Chairman of the Federal Trade Commission, F. W. Taussig, Chairman of the Tariff Commission, H. A. Garfield, Fuel Administrator, Hugh Frayne, representing labor, War Industries Board, Lieutenant-Colonel Robt. H. Montgomery, representing the Army, Commander John M. Hancock, representing the Navy, and former Governor Henry C. Stuart of Virginia, representing agriculture.

In a statement given to the public on March 19, 1918, the Committee had the following to say about its function:

The duties of the Price Fixing Committee will be to pass upon prices for all basic raw materials and to establish from time to time a price-fixing policy to be submitted to the President for approval. Any of the executive departments having

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difficulty in the handling of price-fixing matters will have the advice and assistance of the Price Fixing Committee when desired. The object of the Price Fixing Committee is two-fold. First, it will be a separate body, quasi-judicial in nature, for the purpose implied in its name and it will serve this purpose through being made up of men separated so completely from industrial interests that their motives and actions in the determination of prices can be subject to no suspicion of mercenary interest.

The procedure followed by the Committee in performing its very delicate duties is thus described in the account given of the activities of the Committee in the annual report of the Council of National Defense for 1918:

From the first the attitude of the Committee was that of a quasi-judicial body, maintaining that they held a brief neither for the purchasing interests nor for the producers involved, but were there to weigh such evidence as was presented, from which they would draw their conclusions as to fair and reasonable prices. In order intelligently to fix prices the Committee felt that they should have:

- (1) The history of the industry under consideration for a period of years before the war;
- (2) Statistics of the capital invested and its relation to turnover or sales;
- (3) Sales and profits realized;
- (4) The cost of production;
- (5) A statement or balance sheet segregating the costs of the most and least efficient producers of each commodity during the year 1917; and
- (6) As much more recent information regarding cost and prevailing market prices as could be had up to the time prices are to be fixed.

The machinery for furnishing this information was found in the Federal Trade Commission, which immediately became closely affiliated with the Price Fixing Committee. After a careful study of the information thus secured the Committee calls into consultation the representative members of the in-

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dustry involved, and endeavors by mutual agreement to determine upon maximum prices which will be fair to all concerned. In order that no injustice may be done, the Committee takes exceptional care that no final decision is reached until all data available has been collected and considered. It is the endeavor of the chairman to impress upon industries the benefits which will accrue both to the producers and to the consumers by the stabilization of values and to imbue them with the idea that the Price Fixing Committee represents the Government of which they are a part and that their coöperation is necessary for the successful regulation of prices.

Owing to the frequent changes in cost growing out of war conditions, prices are usually fixed for a period of three months and meetings are called with the industry a week or two before the expiration of the period for the purpose of determining future prices. Owing to the rapidly increasing number of commodities dealt with and to the careful analysis and consideration which the gravity of the subject merits, the Committee has found it necessary to be in practically continuous session since its inception.

All information, such as data supplied by the Federal Trade Commission and by the industry, as well as all testimony taken by the official stenographer at the meetings held with the industry, has been carefully compiled, bound and filed for reference. To this data is added the results of investigations made by the chairman or other members of the Committee which may be of assistance to the Committee in reaching its conclusions.

The chairman of the Price Fixing Committee endeavors to keep in close touch with the price-fixing policies of other nations with a view to formulating and presenting to the Committee from time to time suggestions of such price-fixing policies as will best adapt themselves to the conditions in this country, and more especially with regard to trade relations with the balance of the world during the reconstruction period after the war.

One important class of commodities after another was taken up for consideration and the basic prices were determined and submitted to the President for approval.



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Among the articles the prices of which were thus fixed were iron and steel products, wool, foreign and domestic hides, aluminium, domestic manganese ores, retail prices for certain classes of lumber, sulphuric and nitric acid, copper, hemp, and Portland cement, and wholesale prices for certain dry goods. In general, the Committee did not seek to fix retail prices. Its work was limited to the fixing of prices of raw materials and in the wholesale trade and, on the basis of these, the working out of differential prices. In many cases the prices fixed were the result of a formal agreement entered into between the Committee and associations representing the trades affected.

The last of the functions of the War Industries Board that has been mentioned was that of acting as the agent of the Allies in making purchases in this country for war purposes. In order to prevent a situation in which the several Allies would compete among themselves and with the United States Government, the latter, acting through the Secretary of the Treasury, entered into a series of identical agreements with the several Allies by which it was agreed that all of the latter's war purchases should be made through a commission of three members to be known as the Allied Purchasing Commission. This arrangement made it possible not only that the Allies and ourselves might secure articles needed at the same prices, but that all matters of priority in respect to the placing of orders and the securing of supplies might be adjusted so as best to serve their common interests. As the members of this Commission were at the same time members of the War Industries Board, the work of the Commission was transferred to the latter body. The Commission, however, maintained its sepa-

rate organization and thus became one of the primary divisions of the War Industries Board.

Immediately upon the signing of the armistice the War Industries Board announced that steps would be taken to remove as rapidly as possible all restrictions that had been imposed upon industry. Among our allies in Europe the feeling was general that the necessity for controlling both industry and trade would continue with little abatement until the period of readjustment to peace conditions had been effected. This was not the opinion of the Administration at Washington. The President in his address to Congress upon its convening in December, 1918, stated, in effect, that in his judgment there was no need for setting up any elaborate machinery for handling reconstruction problems; that all that was required was that industry and trade should be relieved of the restrictions that had been imposed upon them and that they should reconstruct themselves. He was opposed even to the constitution by Congress of any special commissions to consider reconstruction problems. The same position was taken by him in dealing with foreign Governments. In general the American authorities opposed the continuance of foreign-trade restrictions any longer than was absolutely necessary or the erection of inter-Allied bodies for the continued control of shipping, imports, exports, and the like.

This policy of the President prevailed both inside and outside of Congress. The War Industries Board, in common with the other special war agencies, at once entered upon the work of demobilization. On November 13, two days after the signing of the armistice, announcement was made of the removal of a large number of restrictions and the intention rapidly to remove others.

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On November 21 further announcement was made that all priority ratings, except those for the Navy, Emergency Fleet Corporation, railroads, telegraphs and telephones, were revoked as of November 22, 1918. On November 29, 1918, Mr. Baruch addressed a letter to the President stating that there was no longer need for the continuance of the War Industries Board and tendering his resignation as Chairman of the Board. On December 31, 1918, the President issued a formal executive order dissolving the Board.

This order, however, recognized that certain of the activities of the Board should be continued for a certain period. It accordingly made provision for the transfer of the divisions having these activities in charge to certain other services, or directed that these divisions should continue to function until their work was completed. It thus directed that the powers and duties of the Price Fixing Committee should continue until the prices already fixed by it had expired; that the Division of Planning and Statistics should be transferred to the War Trade Board; that the powers and functions of the Wool Division, including particularly those relating to the payment by the dealers or buyers of any sums due from them in accordance with the "Government Regulations for Handling Wool Clip of 1918" as established by the Board on May 21, 1918, and the disposition of such payments should be transferred to and be thereafter exercised by the Bureau of Markets of the Department of Agriculture; and it made the War Trade Board the general residuary legatee of such further powers as might have to be exercised in winding up the affairs of the War Industries Board. The latter body as a Board thus went out of existence on December 31, 1918. On February 22, 1919, the Price Fixing Committee, in a

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letter addressed to the President, announced the discontinuance of its work as of March 1, 1919.

Although, as has been pointed out, the War Industries Board and its affiliated service, the Price Fixing Committee, discontinued their activities, certain features of their work seemed to be of such value that the attempt was made to continue them under different auspices. The announcement was thus made early in January, 1919, that the Department of Commerce had organized a new Industrial Coöperation Service to take over and continue the work of the War Prison Labor and National Waste Reclamation Section of the War Industries Board. This Section had been organized on September 26, 1917, by Hugh Frayne, the labor member of the Board, in order to conserve or utilize the large amount of salvage materials which previous to that time had been allowed to go to waste. The statement was made that during its existence waste material to the value of \$1,500,000,000 was reclaimed largely as the result of the efforts of this Section. The Secretary of Commerce stated that he intended to continue the work upon an even greater scale; that he had secured the support of a large number of national organizations, such as the American Red Cross, the American Federation of Labor, the Y. M. C. A., etc.; and that there were then in existence local reclamation councils in 86 cities of the country with 200 others in process of formation.

Probably the most interesting aftermath of the War industries Board, however, was the attempt to create a new agency to have the function of taking steps for the stabilization of prices of basic materials during the period of readjustment. Following a series of conferences between certain members of the Cabinet and

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others, the Secretary of Commerce called a conference on February 5, 1919, at Washington, of the former heads of the more important divisions of the War Industries Board, representatives of various Government services, and others to consider the action that should be taken to induce a prompt inauguration of peace enterprises, to the end that widespread unemployment might be prevented and industry might assume at the earliest possible date its normal course. This conference reached the conclusion that the factor chiefly responsible for the failure on the part of the industries of the country to resume work at full speed and especially to undertake new construction was the uncertainty in regard to future prices of basic raw and building materials. Persons were naturally unwilling to engage in constructive work under existing high prices for materials if there was danger that in a few weeks or months the value of such enterprises would be much less than the money put into them because of a severe drop in the prices of the materials used. The Conference therefore felt that the most important thing that could be done by the Government was to create a board that, acting in close co-operation with the producers of raw materials, would undertake to stabilize prices for a reasonable period. These conclusions were formulated by the Secretary of Commerce in a statement which he gave to the public on February 8, 1919, in the following paragraphs:

(a) It was felt that a large, latent buying power exists in the country which needs only a fair adjustment of prices to become active and effective.

(b) That there is no prospect of the restoration of pre-war prices and the prices of everything will remain higher than in pre-war days.

(c) That it is highly desirable to take steps to reduce the

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prices of all commodities abnormally high to their proper level.

(d) That it is necessary in considering the readjustment of prices of materials to have due regard for the necessity of maintaining a proper and just war scale.

(e) That the fine spirit of voluntary coöperation in industry which proved such a valuable factor in the conduct of the war should be availed of to expedite the processes of industrial readjustment.

(f) That time is of the essence of handling the problem and the situation requires the utmost speed.

(g) It was, therefore, determined that it would be wise for the Secretary of Commerce to seek the approval of the President to the appointment of a board to deal with the situation,

On February 25 the Secretary of Commerce announced that, having secured the approval of the President, he had created an Industrial Board of the Department of Commerce whose duty it would be "to put into practical effect a programme for the readjustment of prices for basic materials in such a fashion as to create a firm foundation on which the consumer can base his future purchases." George N. Peek, formerly Vice-Chairman of the War Industries Board, who probably more than anyone else was responsible for the initiation of the project, was made Chairman of the Board. The other members were for the most part officials of large industrial enterprises who had been in charge of important sections of the War Industries Board.

This Board at once entered upon the performance of its duties and on March 22, 1919, was able to announce that, as a result of conferences held with Judge Elbert H. Gary of the United States Steel Corporation and other large producers of iron and steel, a schedule of prices for iron and steel products had been agreed upon which represented a reduction from existing prices and



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was one to which iron and steel producers were willing to adhere. To the surprise of the public Walker D. Hines, the Director-General of Railroads, almost immediately announced that in making his purchases of steel rails and other iron and steel products he did not consider himself bound by the schedule of prices that had been agreed upon. In a statement given to the public on April 10, 1919, he said:

After repeated consideration of the steel and iron prices proposed by the Industrial Board, I am still of the opinion that those prices are too high and therefore that the Railroad Administration cannot approve them as reasonable prices. It has been perfectly clear to me throughout the discussion of this matter, and I think it is now generally understood, that no power was conferred on the Industrial Board to impose any prices upon the Railroad Administration, but that it retained the power and also was under a duty to exercise its own judgment in respect to this important matter. Throughout the discussion in the Industrial Board itself, Mr. Powell, the representative of the Railroad Administration, indicated that the final approval of any prices so far as the Railroad Administration was concerned rested with the Director-General himself. Mr. Powell, during the discussion, objected that not only the prices on steel rails but the prices generally were unreasonably high, and before the Committee announced its action, he positively stated that the Railroad Administration would not agree to buy at the proposed prices. . . . In view of these considerations I cannot do otherwise than announce definitely that I must decline to endorse these prices as being reasonable, either for the present or for the future. To the extent that the Railroad Administration finds it necessary to make purchases, it will continue to make them on the best terms obtainable by fair and just methods, with full recognition of the principle that a Government agency with large purchasing power must be particularly careful not even to attempt action which could be regarded as oppressive.

This attitude on the part of the Railroad Administra-

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tion not only defeated the attempt of the Industrial Board to fix iron and steel prices, but discredited the entire effort to stabilize prices through a Government agency working in connection with the voluntary co-operation of producers. As a result the Secretary of Commerce a few days after the stand of the Railroad Administration was made known announced the dissolution of the Board and the abandonment of the undertaking. Immediately afterwards publicity was given to an opinion of the Attorney-General declaring that the attempted action of the Board was illegal as being in violation of the Sherman Act and statutes regulating the purchase of supplies by Government agencies.

A feature of this episode that attracted no little attention was the evidence that it afforded of a lack of unity of policy and programme on the part of the Administration. Although the President had, according to the announcement of the Secretary of Commerce, approved the constitution and purposes of the Industrial Board, one of his most important representatives refused to co-operate in the project. The whole incident was not a little like that of the attempt, hereafter described, on the part of a committee of the Council of National Defense to fix the price of coal which was immediately repudiated by the Secretary of War.

## CHAPTER VI

### THE MOBILIZATION OF FOREIGN TRADE

Conditions demanding rigid control of foreign trade—Importation of necessary raw materials—Shortage of shipping—Supplying the Allies and rationing the neutrals—Prevention of trading with the enemy—Legislation establishing Government control—Of exports under the Espionage Act—Of imports under the Trading-with-the-Enemy Act—Administration of exports control first vested in the Secretary of Commerce—The Exports Council—Exports Administrative Board—Creation of the War Trade Board and War Trade Council—Their powers and duties—Organization and activities of the War Trade Board—Control of exports—Control of imports—Control of trading with the enemy—Control of bunkering—Negotiation of trade agreements with European neutrals—Control of exports of money, of insurance, and of enemy patents and trade marks—Withdrawal of trade restrictions after the armistice—The Russian Bureau Incorporated of the War Trade Board.

Closely analogous to the necessity for the mobilization of industry for war purposes was that of the mobilization, in the sense of the establishment of rigid control, of foreign trade. This was due to a number of circumstances. In the first place, many of our industries were directly dependent upon imports from abroad for their raw materials. If assurance was to be had that supplies of such materials would be forthcoming in sufficient quantity, it was essential that the Government should take steps to see that they were imported. In the second place, the amount of ocean tonnage available for the use of the United States was utterly inadequate to meet our needs. This arose partly from the increased demand for ships for the transportation of troops and supplies, and partly from the destruction of vessels resulting from the unrestricted use of submarines by the

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enemy. This destruction was so great that it was not until near the cessation of hostilities that new ships were built by ourselves and the Allies in sufficient quantity to offset losses. With a constantly increasing demand for ships we were thus confronted during the greater part of the war with a constantly diminishing supply. This meant that every possible precaution had to be taken to insure that such ships as were available should be devoted to the transportation of those commodities which were most essential for the supply of our war and general needs. Third, a rigid control over exports was essential in order to insure that no American goods should reach the enemy either directly or indirectly through neutral countries, and that such of our goods as were available for export should go to those of the Allies as were most in need of them, or to those neutrals who would undertake to give to us or the Allies reciprocal advantages. Finally, the United States, following the example of Great Britain and the other Allies, adopted the policy of prohibiting trading by American firms not only with all firms belonging to the enemy, but with all firms, no matter of what nationality or where located, that were favorably disposed to or maintained trading or other relations with the enemy.

The only way in which these conditions could be met and these policies carried out was by the Government's assuming complete control and direction over all our foreign trade. The first step was taken by the passage of the so-called Espionage Act of June 15, 1917, which, among other things, conferred upon the President full power to control all exports from the United States. Title VII, which relates to this matter, reads as follows:

SEC. 1. Whenever during the present war the President shall find that the public safety shall so require, and shall

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make proclamation thereof, it shall be unlawful to export from or ship or take out of the United States to any country named in such proclamation any article or articles mentioned in such proclamation, except at such time or times, and under such regulations and orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress: *Provided, however,* That no preference shall be given to the ports of one State over those of another.

SEC. 2. Any person who shall export, ship, or take out, or deliver or attempt to deliver for export, shipment, or taking out, any article in violation of this title, or of any regulation or order made hereunder, shall be fined not more than \$10,000, or, if a natural person, imprisoned for not more than two years, or both; and any article so delivered or exported, shipped or taken out, or so attempted to be delivered or exported, shipped, or taken out, shall be seized and forfeited to the United States; and any officer, director, or agent of a corporation who participates in any such violation shall be liable to like fine or imprisonment, or both.

SEC. 3. Whenever there is reasonable cause to believe that any vessel, domestic or foreign, is about to carry out of the United States any article or articles in violation of the provisions of this title, the collector of customs for the district in which such vessel is located is hereby authorized and empowered, subject to review by the Secretary of Commerce, to refuse clearance to any such vessel, domestic or foreign, for which clearance is required by law, and by formal notice served upon the owners, master, or person or persons in command or charge of any domestic vessel for which clearance is not required by law, to forbid the departure of such vessel from the port, and it shall thereupon be unlawful for such vessel to depart. Whoever, in violation of any of the provisions of this section shall take, or attempt to take, or authorize the taking of any such vessel, out of port or from the jurisdiction of the United States, shall be fined not more than \$10,000 or imprisoned not more than two years, or both; and, in addition, such vessel, her tackle, apparel, furniture, equipment, and her forbidden cargo shall be forfeited to the United States.

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The next step was taken by the insertion in the Trading-with-the-Enemy Act of October 6, 1917, of provisions conferring similar powers in respect to the control of imports and regulating in detail the whole matter of trading with the enemy or allies of the enemy. The section dealing with the control over imports reads as follows:

SEC. 11. Whenever during the present war the President shall find that the public safety so requires and shall make proclamation thereof, it shall be unlawful to import into the United States from any country named in such proclamation any article or articles mentioned in such proclamation except at such time or times and under such regulations or orders, and subject to such limitations and exceptions as the President shall prescribe, until otherwise ordered by the President or by Congress: *Provided, however*, that no preference shall be given to the ports of one state over those of another.

The detail with which the provisions regarding trading with the enemy were given in the Act prohibits their reproduction in full. They are, however, excellently set forth in the following extract from a statement regarding the Act published in the *Official Bulletin* of October 15, 1917:

The Trading-with-the-Enemy Act makes it unlawful, under severe criminal penalties, to trade without a license with any person who there is probable cause to believe is an enemy or ally of enemy. The Act gives an extremely broad definition of what constitutes trade. It provides that "trade" shall be deemed to mean —

(a) To pay, satisfy, compromise, or give security for the payment or satisfaction of any debt or obligation.

(b) To draw, accept, pay, present for acceptance or payment, or indorse any negotiable instrument or chose in action.

(c) To enter into, carry on, complete, or perform any contract, agreement, or obligation.



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(d) To buy or sell, loan or extend credit, trade in, deal with, exchange, transmit, transfer, assign, or otherwise dispose of, or receive any form of property.

(e) To have any form of business or commercial communication or intercourse with.

The definition of an "enemy" or "ally of enemy" requires careful consideration. In the first place, any person, no matter of what nationality, who resides within the territory of the German Empire or the territory of any of its allies or that occupied by their military forces is expressly made an "enemy" or "ally of enemy" by the Act. Even citizens of the United States who have elected to remain within such territory are "enemies" or "allies of an enemy" within the provisions of the Act. Further, any person not residing in the United States, of whatever nationality and wherever he resides, who is doing business within such territory, is placed within the definition of "enemy" or "ally of enemy." So also is any corporation created by Germany or its allies. So also is any corporation created by any other nation than the United States and doing business within such territory. Further, for the purposes of this Act, the Government of any nation with which the United States is at war, or the ally of such nation and every subdivision of such Government, and every officer, official agent, or agency of such Government is an "enemy" or "ally of enemy," and the Act makes no restriction as to where such officer, official, agent, or agency may be located.

It is important for the public to have clearly in mind that not only is it unlawful to trade with an "enemy" or "ally of enemy" without license, but it is equally unlawful to trade with any person who there is reasonable cause to believe is acting for or on account of or for the benefit of an "enemy" or "ally of enemy" and it makes no difference what the nationality or what the residence of such persons may be. On the other hand, in dealing with subjects of Germany who are resident in the United States, it is important to remember that, while other provisions of law make it possible to intern them, the mere fact of their nationality does not make them "enemies" within the meaning of this Act and so prevent persons in this country from having ordinary commercial relations with them.

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The Trading-with-the-Enemy Act, however, while imposing such stringent provisions, gives power to the President to grant licenses to trade with the enemy. The exercise of this power has been delegated by the President to the War Trade Board. Applications for license to trade with an "enemy" or "ally of enemy," or a person acting on behalf of or for the benefit of an "enemy" or "ally of enemy," should be sent to the War Trade Board.

The Trading-with-the-Enemy Act provides that a person who is an "enemy" or "ally of enemy" under the definition of that Act, doing business within the United States, may within 30 days after its enactment, apply for a license to continue to do business in the United States. The main application of these provisions will be to German or ally of German concerns which are doing business in the United States through branch houses or agents, such as insurance or reinsurance companies. Such an "enemy" or "ally of enemy" may continue to do business within the United States until such applications are acted upon, but under the restrictions, in the case of insurance companies, of the President's proclamation of July 13, 1917. It will not be necessary under these provisions, however, for a German subject or the subject of an ally of Germany who is resident in this country to apply for a license unless for some other reason he falls within the definition of "enemy" or "ally of enemy" as explained above.

If a license is granted to an "enemy" or "ally of enemy" to do business within the United States, it is then lawful for any one within the United States to trade within the United States with such "enemy" or "ally of enemy" without himself applying for a license. Such "enemy," however, even if it is granted a license to do business within the United States, is prohibited from the time the Act takes effect from transmitting out of the United States any money or property, or using such money or property as a basis for the establishment of any credit within or outside of the United States for the benefit of, or on behalf of an "enemy" or "ally of enemy." Applications for license by an "enemy" or "ally of enemy" in the United States to continue to do business in the United States should be sent to the War Trade Board, except in the case of "enemy" or "ally of enemy" insurance

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companies, in which case they should be sent to the Treasury Department.

No "enemy" or "ally of enemy" doing business in the United States, or a partnership in which an "enemy" or "ally of enemy" was a member at the beginning of the war, can make a change of name during the war without a license. The War Trade Board is empowered by the President to receive and act on applications for such licenses.

The Trading-with-the-Enemy Act prohibits and imposes severe penalties on taking or sending any communication in any form out of the United States intended for any enemy or ally of the enemy and also makes it unlawful to bring in or take out of the United States any form of communication except by mail. Power is given by the Act, however, to relieve from these prohibitions by license, and the Secretary of the Treasury is empowered by the President to receive applications for and grant such licenses.

To make effective the provisions of these acts it was necessary for the President to take steps for the creation of agencies through which the control authorized might be in fact exercised. On June 22, 1917, he promulgated an executive order providing for the establishment of an Exports Council to act as an advisory body to him in administering the system of control over exports authorized by the Act of June 15, 1917, and vesting the actual administration of the system in the Secretary of Commerce. This order read as follows:

By virtue of authority vested in me by Title VII of the Act approved June 15, 1917, entitled "An Act to punish acts of interference with the foreign relations, the neutrality, and the foreign commerce of the United States, to punish espionage and better to enforce the criminal laws of the United States and for other purposes," I hereby vest in the Secretary of Commerce the executive administration of all instructions issued by the President under said Title VII, and of the proclamations thereunder, and the said Secretary is hereby authorized and directed to take such measures as may be

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deemed necessary to administer and execute the same, and to grant or refuse export licenses thereunder, in accordance with those instructions.

I hereby establish an Exports Council to be composed of the Secretary of State, the Secretary of Agriculture, the Secretary of Commerce, and the Food Administrator, and I hereby authorize and direct the said Exports Council thus constituted to formulate, for the consideration and approval of the President, policies and make the recommendations necessary to carry out the purposes of this Act.

On July 9, 1917, the Secretary of Commerce announced that he had created a Division of Exports Licenses in the Bureau of Foreign and Domestic Commerce of his Department to have charge of the performance of the duties thus entrusted to him.

On August 21, 1917, the President issued another order superseding that of June 22, 1917, in so far as the vesting of the administration of the exports-control system in the Secretary of Commerce was concerned and creating for this purpose a new body to be known as the Exports Administrative Board. The order provided that this Board should be composed of representatives of the Secretary of State, the Secretary of Agriculture, the Secretary of Commerce, the Food Administrator, and the United States Shipping Board. The Exports Council was at the same time continued as an advisory body, but its membership was enlarged by adding to it the Chairman of the Shipping Board.

On October 12, 1917, the President took steps for the exercise of the powers in respect to the control of imports and the enforcement of the provisions regarding trading with the enemy which had been vested in him by the Trading-with-the-Enemy Act of October 6, 1917. This he did by the issue of an executive order of that date setting forth in detail the manner in which the

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several powers conferred by that Act should be exercised. It thus defined the duties of certain heads of departments in respect to the exercise of certain powers, and created and defined the duties of a Censorship Board and the office of Alien Property Custodian, in addition to making provision for the exercise of control over imports and exports and of trading with the enemy. In respect to the latter features, which are the only ones with which we are here concerned, the order made provision for two new bodies, to be known as the War Trade Council and the War Trade Board, which should supersede and take over the duties of the Exports Council and the Exports Administrative Board and in addition exercise control over imports and the trading with the enemy features of the Act. These bodies were given the same composition as the bodies they superseded. The change of name was made in order that this designation of the two agencies might better indicate the enlarged scope of their activities. Following are the provisions of this order in so far as they relate to these two bodies; they are reproduced *in extenso* since they constitute the organic act as it were, under which these bodies have operated:

I. I hereby establish a War Trade Board to be composed of representatives, respectively, of the Secretary of State, of the Secretary of the Treasury, of the Secretary of Agriculture, of the Secretary of Commerce, of the Food Administrator, and of the United States Shipping Board.

II. I hereby vest in said Board the power and authority to issue licenses under such terms and conditions as are not inconsistent with law, or to withhold or refuse licenses, for the exportation of all articles, except coin, bullion or currency, the exportation or taking of which out of the United States may be restricted by proclamations heretofore or hereafter issued by me under said Title VII of the Espionage Act.



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III. I further hereby vest in said War Trade Board the power and authority to issue, upon such terms and conditions as are not inconsistent with law, or to withhold or refuse, licenses for the importation of all articles the importation of which may be restricted by any proclamation hereafter issued by me under Section 11 of the Trading-with-the-Enemy Act.

IV. I further hereby vest in said War Trade Board the power and authority not vested in other officers by subsequent provisions of this order, to issue, under such terms and conditions as are not inconsistent with law, or to withhold or refuse, licenses to trade either directly or indirectly with, to, or from, or for, or on account of, or on behalf of, or for the benefit of, any other person, with knowledge or reasonable cause to believe that such other person is an enemy or ally of enemy, or is conducting or taking part in such trade directly or indirectly for, or on account of, or on behalf of, or for the benefit of, an enemy or ally of enemy.

V. I further hereby vest in said War Trade Board the power and authority, under such terms and conditions as are not inconsistent with law, to issue to every enemy or ally of enemy, other than enemy or ally of enemy insurance or re-insurance companies, doing business within the United States through an agency or branch office, or otherwise, applying therefor within thirty days of October 6, 1917, licenses temporary or otherwise to continue to do business, or said Board may withhold or refuse the same.

VI. And I further hereby vest in said War Trade Board the executive administration of the provisions of Section 4 (b) of the Trading-with-the-Enemy Act relative to granting licenses to enemies and enemy allies to assume or use other names than those by which they were known at the beginning of the war. And I hereby authorize said Board to issue licenses not inconsistent with the provisions of law or to withhold or refuse licenses to any enemy, or ally of enemy, or partnership of which an enemy or ally of enemy is a member or was a member at the beginning of the war, to assume or use any name other than that by which such enemy or ally of enemy or partnership was ordinarily known at the beginning of the war.

VII. I hereby revoke the executive order of August 21,



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1917, creating the Exports Administrative Board. All proclamations, rules, regulations, and instructions made or given by me under Title VII of the Espionage Act and now being administered by the Exports Administrative Board are hereby continued, confirmed, and made applicable to the War Trade Board, and all employees of the Exports Administrative Board are hereby transferred to and constituted employees of the War Trade Board in the same capacities, and said War Trade Board is hereby authorized to exercise without interruption, the powers heretofore exercised by said Exports Administrative Board.

VIII. The said War Trade Board is hereby authorized and empowered to take all such measures as may be necessary or expedient to administer the powers hereby conferred. And I hereby vest in the War Trade Board the power conferred upon the President by Section 5 (a) to make such rules and regulations, not inconsistent with law, as may be necessary and proper for the exercise of the powers conferred upon said Board.

IX. I hereby establish a War Trade Council to be composed of the Secretary of State, Secretary of the Treasury, Secretary of Agriculture, Secretary of Commerce, the Food Administrator, and the Chairman of the Shipping Board, and I hereby authorize and direct the said War Trade Council thus constituted to act in an advisory capacity in such matters under said acts as may be referred to them by the President or the War Trade Board.

This order was subsequently amended by an executive order issued August 20, 1918, providing that the composition of the War Trade Board should be changed so as to include representatives of the Secretary of State, Secretary of the Treasury, Secretary of Agriculture, Secretary of Commerce, the Food Administration, the United States Shipping Board, and the War Industries Board. Vance C. McCormick was made Chairman of the War Trade Board and since its creation has been its active directing head.

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The War Trade Board had three distinct duties, namely, the control of exports, of imports, and of trading with the enemy. It will be conducive to clearness if a separate account is given of the manner in which each of these duties was performed.<sup>1</sup>

As has been pointed out, steps were taken for the control of exports before the War Trade Board was created; that is, while such control was vested first in the Secretary of Commerce, and later in an Exports Administrative Board. On July 9, 1917, the President issued a proclamation giving a list of articles the exportation of which to certain enumerated countries was prohibited except as a license therefor was secured from the Secretary of Commerce in conformity with such rules and regulations and subject to such restrictions and limitations as the latter might prescribe. This original proclamation was supplemented by others issued on August 27, 1917, September 9, 1917, November 28, 1917, and February 14, 1918, which combined had for their effect to subject practically all articles of export to a licensing control. In issuing his proclamation of August 27, 1917, the President gave to the public a statement descriptive of the purposes aimed at in establishing this system from which we reproduce the following:

The purpose and effect of this proclamation is not export prohibition but merely export control. It is not the intention to interfere unnecessarily with our foreign trade; but our own domestic needs must be adequately safeguarded, and there is the added duty of meeting the necessities of all the nations at war with the Imperial German Government. After these needs are met it is our wish and intention to minister to the needs of the neutral nations as far as our resources permit.

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<sup>1</sup> For a more detailed description of the organization of the War Trade Board and its operations see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

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This task will be discharged without other than the very proper qualification that the liberation of our surplus products shall not be made the occasion of benefit to the enemy, either directly or indirectly.

The two lists have been prepared in the interests of facility and expediency. The first list, applicable to the enemy and his allies and to the neutral countries of Europe, brings under control practically all articles of commerce, while the second list, applicable to all the other countries of the world, makes only a few additions to the list of commodities controlled by the proclamation of June 22, 1917. It is obvious that a closer supervision and control of exports is necessary with respect to those European neutrals within the sphere of hostilities than is required for those countries further removed. The establishment of these distinctions will simplify the administrative processes and enable us to continue our policy of minimizing the interruption of trade.

It is not feasible to attempt any detailed account of the specific steps taken by the War Trade Board in administering this system. The actual work of administration was entrusted to a Bureau of Exports. For the guidance and assistance of the public the Board prepared and promulgated a so-called "Conservation List" of commodities the conservation of which was necessary on account of the limited supply and which could only be exported under exceptional circumstances. Regarding this list, which was constantly revised, the Board said:

The Board has practically prohibited the exportation of these articles. . . . Export licenses may be granted, however, for the above articles when destined for actual war purposes or when they will directly contribute thereto; and in certain unusual cases when such exports will contribute directly to the immediate production of important commodities required by the United States; and also in certain other cases where the articles may be exported in limited quantities without detriment to this country. Further, licenses may also be granted for limited quantities of these conserved articles

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when required for purely medicinal or pharmaceutical purposes.

It was not until some months after exports had been subjected to control that similar action was taken in respect to imports. The first step in this direction was the issue by the President on November 28, 1917, of a proclamation providing for a system of licensing imports analogous to that which had been set up for exports. This original proclamation was supplemented by another issued on February 14, 1918, so extending the system to articles not embraced in the first proclamation as to bring under it nearly all articles entering into our import trade. In connection with the first proclamation the War Trade Board published a very interesting description of its purpose and the manner in which the system would be administered. This statement read in part as follows:

Such control of imports was made effective by the allied Governments many months ago, the necessity therefor having become obvious if the resources of each were to be most effectively utilized for national and international demands. With the organization of the Bureau of Imports of the War Trade Board the requisite machinery has been supplied for increasing the importation of certain indispensable commodities produced abroad. The supply now coming forward to this country is limited by reason of export embargoes imposed by foreign powers controlling the territory in which such materials originate. Such action was made necessary because of interference with normal production, as well as the extraordinary consumption occasioned by the war. Among notable examples of such materials may be mentioned tin, wool, rubber, ferromanganese, leather, flax, and jute.

Prior to the enactment of this statute there was no governmental agency especially designated to deal with the proper officials of other Governments in order to procure the release of commodities required by the United States and which had

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been embargoed by other Governments. The governmental supervision of imports makes possible a more effective scheme of reciprocity, and brings about a closer unity of the countries associated together in the war. Heretofore, in the absence of a responsible agency with which to deal, the allied Governments were not in a position to know that all products exported by them to the United States would be utilized in a manner most conducive to the success of the great common enterprise. With the extension of scope in the operations of the War Trade Board there is at hand a dependable medium through which the allies will be enabled more effectively to express their willingness to reciprocate, by making liberal shipments of commodities much needed by this country in exchange for the vast quantities of vital supplies which are going forward to them in an unending stream.

The various trades dealing in the embargoed commodities have been or are being so organized that the total requirements of each industry can be accurately surveyed, the non-essential uses of any material eliminated, and a system of control provided which will insure the equitable distribution of the imported commodity and its consumption in the most essential products. At present all of these materials are permitted by foreign Governments to come into this country only under guarantees that they will not be reexported except under specified restrictions; that they will not be used in trading directly or indirectly with the enemy; and that no purchase of any such material has been made as a speculation. At present these guarantees are given to the consul or other representative of the allied Governments in this country, but this method of handling imports has resulted in some dissatisfaction on the part of American business men affected thereby.

In operating this system the War Trade Board adopted the policy of working in the closest possible coöperation with the trade affected. This it did by encouraging the several trades most concerned to effect national organizations and the appointment of committees to represent them before the Board. Among the trade organizations thus created may be mentioned the Rubber Association



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of America (Inc.), the American Iron and Steel Institute, the Textile Alliance (Inc.), the United States Shellac Importers' Association (Inc.), the Tanners' Council of the United States of America, the American Diamond Committee (Inc.), the Plumbago-Graphite Association, and the Oils and Oil Seeds Association of America (Inc.). Regarding the relations established between the Board and these committees, the former in a statement published in the *Official Bulletin* of December 15, 1917, said:

These committees are not given any authority whatsoever in the granting or refusing of import licenses, or in any way on their own initiative to determine who shall or shall not import these commodities, or determine their disposition; but their only functions are to gather such information in the various trades as the Government, acting through the War Trade Board, may from time to time direct; to act as consignees of the various commodities as directed; to release these commodities to the importers under instructions from the War Trade Board, and prior to such release to obtain from the importers such guarantees or other agreements as the War Trade Board may require; to keep themselves informed for the benefit of the board as to the use and disposition of the imported commodities, and the observance by the importers of any guarantees or agreements given in connection therewith, and to keep full and complete records of all importations of the various commodities.

The administration of the system of control over imports was vested in a Bureau of Imports specially created for the purpose.

The control of trading with the enemy had in view not merely the prevention of commodities' reaching the enemy country, but the rooting out of enemy trade throughout the world. The justification for this lay in the ruthless manner in which the enemy had conducted



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his military operations, the total disregard shown by him in respect to private property, and the extent to which in times of peace he had made use of his traders in foreign countries as intelligence officers and the means for securing control over raw materials, products, and manufacturing and trading facilities essential in time of war.

To administer the system of preventing trading with the enemy and of destroying enemy trade wherever found the War Trade Board created a special Bureau of Enemy Trade. The first task of this Bureau was that of securing a list of all firms throughout the world which were of a character bringing them within the intent of the law and with whom all trading by American citizens should be prohibited. This list, known as the "Enemy Trading List," was published as a guide and instruction to American merchants in their transactions with foreign countries. It was of a very comprehensive character in that it included not merely firms which were clearly of an enemy character, but neutral firms dealing with such firms or attempting to have commercial relations with the enemy or enemy citizens. It was thus constructed upon the principle of a secondary as well as a primary boycott. In the construction of this list the Bureau had the assistance of our diplomatic and consular officers stationed in foreign ports and the corresponding list prepared by the British Government. An effort was made to have the British and American lists correspond as nearly as possible, but in this complete success was not achieved, and it was difficult at times to secure an adjustment between the practices of the two countries owing to the different degrees to which the trade of the two countries would be affected by the inclusion or exclusion of certain firms.

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The Bureau of Enemy Trade also had charge of the issuance of special licenses to an "enemy" or "ally of enemy" doing business within the United States.

In the control over bunkering, that is, the right of vessels to take on coal for steaming purposes, the United States had another powerful weapon to prevent trading with the enemy or enemy firms. The War Trade Board therefore drew up and promulgated regulations governing this matter in a stringent manner. No vessel was allowed to take on coal for its own use until the Board was satisfied that the voyage was one in respect both to destination and to character of cargo that conformed with the wishes of the Board. This weapon was one which could be and was used in respect not only to American vessels but to those of foreign countries as well. It was, moreover, applicable in foreign countries as well as in our own. Thus American coal was refused to all dealers in foreign countries no matter what their nationality unless they observed the regulations and orders of the Board in respect to sales to vessels or to firms appearing in the Enemy Trading List. As many countries, and particularly those in Central and South America, were dependent upon the United States for their coal, it was possible through this means to carry into effect the policies of the Board in respect to the prevention of trading with the enemy and the rooting out of enemy trade in foreign countries. In drafting and enforcing its bunkering regulations the Board worked in close coöperation with the Fuel Administration and the United States Shipping Board.

The administration of this system was entrusted to a special bureau of the War Trade Board known as the Bureau of Transportation. The system of control was that of prohibiting every vessel of any nationality from

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clearing from any port of the United States or any of its possessions until it had secured a license or licenses covering all bunker fuel and port, sea and ship's stores and supplies aboard the vessel at the time of sailing, whether already on board or taken on at the port from which clearance was desired. Regulations were issued covering the conditions that must be met before such licenses could be granted. Among these were conditions providing that no vessel should carry any cargo which was consigned to or shipped by any person, firm, or corporation with whom the citizens of the United States were prohibited from trading, or, if the voyage was to any European port, with whom citizens of any of the Allied countries were prohibited by their laws from trading.

Trade with certain countries, such as Holland, Switzerland, and the Scandinavian countries, which were able by their location to maintain trading relations with the enemy notwithstanding the marine blockade maintained by ourselves and our allies, offered a special problem. Not only could any goods exported from this country to those countries be readily reexported to the enemy, but if not so reexported, they could be so utilized as to release other commodities for export to the enemy. To meet this situation it was necessary either to prohibit practically all trade with such countries or to take special precautions that neither the goods sent to such countries nor native products corresponding to them should reach the enemy. The first was not practicable, since these countries were to a considerable extent dependent upon foreign trade for the food necessary for the support of their populations, to say nothing of their need for other materials in order to maintain their economic life.

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The United States, acting through the War Trade Board, accordingly followed the example of Great Britain, and working in close coöperation with that country, negotiated with each of these countries special trade agreements. These agreements established, in effect a rationing system for these countries under which certain amounts of commodities, and particularly food products, were allowed to enter these countries in return for their obligating themselves to take certain steps that would ensure that the enemy would not profit either directly or indirectly thereby. Agreements of this character were made with Sweden, Norway, Denmark, Holland, and Spain. An interesting feature of most, if not all, of these agreements was that of requiring that all goods exported to these countries should be consigned to a national trade organization, of which the Netherlands Overseas Trust is the best example, which would undertake to guarantee that all conditions imposed in respect to the use of the goods so received or the sending of goods to the enemy would be observed.

The Trading-with-the-Enemy Act of October 6, 1917, also contained provisions authorizing the President to take steps for the control of the exportation of coin, bullion and currency, the exercise of insurance business by enemy firms in the United States, and the grant to or use by enemy firms of patents and trade marks belonging to enemy firms. The enforcement of these provisions was placed by the executive order of October 12, 1917, in the hands of the Secretary of the Treasury in so far as the export of coin, bullion, and currency and the business of insurance were concerned, and in the Federal Trade Commission in so far as the grant or use of patents and trade marks was concerned. Both of these authorities in the discharge of the duties thus conferred

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upon them established a licensing system and promulgated regulations setting forth the conditions under which such licenses would be granted.

The signing of the armistice had, probably, less immediate effect upon the operations of the War Trade Board than upon those of any of the other special war agencies. Because of the fact that the embargo against Germany and her allies was rigidly maintained during the period of negotiation of the terms of peace and the fact that tonnage available for overseas trade still continued wholly inadequate to meet the world needs, the necessity still existed for the maintenance by the United States of a large measure of control over the importation and exportation of most commodities. Notwithstanding this, it was the policy of the United States to alleviate or wholly remove restrictions upon foreign trade as rapidly as circumstances would permit. Especially was it desired to remove restrictions upon trade with neutral nations and to abolish the regulations governing trading with enemy firms or ally-of-enemy firms located in our own or neutral countries. Order after order was accordingly issued having these ends in view. On April 28, 1919, announcement was made that, dating from April 29, 1919, all Enemy Trading Lists theretofore issued or compiled by the War Trade Board were withdrawn and that all disabilities attached to trade and communication with persons included in such lists would cease to operate. This order, however, did not affect any existing restrictions against trade and communication between the United States and Germany or Austria-Hungary. The reservation was also made that the Enemy Trading List might be reimposed at any time should circumstances make such action desirable.

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An interesting step taken by the Board just prior to the signing of the armistice was the creation of a corporation to which was given the name "The War Trade Board of the United States: Russian Bureau Incorporated," for the purpose of acting as the agency of the United States in extending economic assistance to Russia. The capital stock of this corporation, \$5,000,000, was provided by an allotment from the President's special war emergency fund. In announcing the creation of the corporation the Board stated that it was not the intention of the corporation to compete in any way with the ordinary channels of trade, but that the corporation would furnish supplies to the districts where business men would hesitate to go on account of the transportation problems and the low value of Russian currency. To a considerable extent it planned to conduct its operations upon a barter basis. Later announcement was made that it had begun operations by the dispatch of three vessels from the Pacific Coast to Vladivostok carrying commodities that its representatives in Siberia had designated as being most needed there.



## CHAPTER VII

### THE MOBILIZATION OF SHIPPING

Unrestricted submarine warfare and the shipping crisis—Importance of the Shipping Act of September 7, 1916—Creation of the United States Shipping Board—Its organization and powers—Functions and creation of the Emergency Fleet Corporation—Further war powers derived from Congress—For seizure of enemy shipping—For commandeering of ships and shipbuilding plants—For an extensive construction programme—For admission of foreign vessels to the coastwise trade—For provision of housing facilities and transportation services at shipyards—For control over the transfer of vessels to alien ownership—For control over ship operation and marine transport—Operations of the Shipping Board—Construction programme of the Emergency Fleet Corporation—Ships secured by seizure and requisition—Provisions for operation of ships and allocation of tonnage—Recruitment and training of operating and construction forces—The labor problem—The Shipbuilding Labor Adjustment Board—National Adjustment Commission—Committee on Mariners' Wages—The Port and Harbor Facilities Commission—The Chartering Committee.

Among the absolute essentials for the successful prosecution of the war none took precedence over shipping suitable for overseas voyages. A partial breakdown in our system of inland transportation, a shortage in food, fuel, or other supplies, interruptions in operations due to labor difficulties, might seriously handicap our own efforts; but a failure to secure ships for the transportation of our troops and military supplies and the food and other things of which our allies had bitter need meant nothing short of absolute disaster. Almost from the outbreak of the war the merchant shipping at the disposal of the Allies suffered a steady diminution. On the one hand, the toll of ships destroyed by the enemy submarines and mines tended constantly to increase.

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On the other hand, the Allies were compelled to devote so large a part of their shipbuilding facilities to naval construction and found themselves in possession of so inadequate a supply of skilled labor that it was impossible for them to build ships in sufficient number to offset losses.

Grave as was this situation at the beginning of 1917, it was rendered still more serious by the declared intention of the enemy to practice unrestricted submarine warfare, a declaration which was the immediate cause of our entering the conflict. Following this declaration the sinking of merchant vessels went on at a greatly increased rate. It became evident that unless ships could be built to replace the ones destroyed, it was only a question of time when the war would be lost by us from this cause alone. Our allies were already putting forth practically their maximum effort. If the situation was to be met, it had to be met by us.

Fortunately the need for taking action towards the up-building of our merchant marine had been appreciated prior to our being drawn into the conflict. On September 7, 1916, Congress passed the Shipping Act, the full title of which was: "An Act To establish a United States Shipping Board for the purpose of encouraging, developing and creating a naval auxiliary and naval reserve and a merchant marine to meet the requirements of the commerce of the United States with its territories and possessions, and with foreign countries; to regulate carriers by water engaged in the foreign and interstate commerce of the United States; and for other purposes."

This Act, although proving to be one of the most important elements of our war legislation, was not passed as a war measure properly speaking. Fundamentally

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it was intended as a piece of permanent legislation with two primary ends in view: (1) the provision of an organ that should exercise much the same regulative control over carriers by water engaged in interstate and foreign commerce as was exercised by the Interstate Commerce Commission and the Federal Trade Commission in respect to inland transportation and industrial corporations engaged in interstate business; and (2) the taking of steps that would lead to a restoration of our merchant marine to its former importance. In respect to the latter the act had specially in view the construction of vessels that might be used as ordinary merchant vessels in times of peace and as auxiliaries or a reserve to the Navy in time of war. In the present work no attempt is made to give an account of the functions or activities of the Shipping Board from the first standpoint, both because they had no direct relation to the prosecution of the war and because these functions were practically in abeyance during the war.

In order that the Board might perform its second function on a scale called for by the war, its powers had to be materially broadened. This was done by successive acts of Congress which will be enumerated and described. Before this is done, however, it is desirable to give an account of the organization of the Board and its powers and duties in respect to the building up of a merchant marine, as provided for by the original Act.

The Act provided for the creation of a United States Shipping Board of five commissioners, to be appointed by the President by and with the advice and consent of the Senate, who should hold office for six years, with the proviso that the first commissioners should hold office

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for two, three, four, five, and six years, respectively, to the end that the membership of the Board should normally undergo change one member at a time instead of all at once. The Board was directed to elect annually one of its members as Chairman and one as Vice-Chairman. Not more than three commissioners could be appointed from the same political party, and no commissioner was permitted to engage in any other business, vocation, or employment. The salaries of the commissioners were fixed at \$7,500 per annum. Provision was made for a Secretary to be appointed by the Board at a salary of \$5,000 per annum, and authority was conferred upon the Board to "employ and fix the compensation of such attorneys, officers, naval architects, special experts, examiners, clerks and other employees as it may find necessary for the proper performance of its duties and as may be appropriated for by the Congress."

In addition to its powers as a regulative body, which, for reasons already given, are not here considered, the Board was given the direct duty of securing by construction, purchase, lease, charter, or otherwise, vessels suitable for marine transportation, and of making provision for their operation. The President was authorized to transfer to the Board, either temporarily or permanently, such vessels of the Navy and War Departments as were not required by them for naval and military purposes in time of peace and were suitable for commercial use, and such vessels owned by the Panama Railroad Company as were no longer required by it. The Board, having acquired the ownership of vessels, was authorized, upon terms and conditions prescribed by it and approved by the President, to charter, lease, or sell to any citizen of the United States any vessels so purchased, constructed, or transferred.

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The most interesting feature of the Act, however, is probably that which authorized the Board to form, under the laws of the District of Columbia, one or more corporations "for the purchase, equipment, lease, charter, maintenance and operation of merchant vessels in the commerce of the United States." If this were done, it was provided that the total stock of such corporation or corporations should not exceed \$50,000,000, and that the Board should subscribe on behalf of the United States for not less than a majority of the stock issued. This authorization is of interest from two points of view. First, and most important, it permitted the Board to distinguish clearly between, and to make separate provision for the performance of, its two functions. The fact that the performance of its function of procuring, maintaining, and operating a fleet might be intrusted to a distinct corporation made it possible carefully to segregate the financial operations involved therein from the general revenues and expenditures of the Board as such. The second point is that the Congress made provision by which the Government, acting through the Board, might engage in a purely business activity. The Act authorized this, however, subject to the limitation that the Board or the corporation organized by it should not undertake the operation of vessels unless it was unable, after a *bona fide* effort, to contract with a citizen or citizens of the United States to purchase, lease, or charter such vessels under such terms and conditions as might be prescribed by it. In respect to this the Act provided that: "The Board is directed to attempt to secure such offer by a citizen of the United States by setting forth the conditions and calling for competitive offerings. If the Board finds no offer satisfactory, it must embody its conclusions in a report to

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the President and only upon the approval of the report by the latter is the corporation authorized to undertake the operation of a vessel." Further, the provision was made that "at the expiration of five years from the conclusion of the present European war the operation of vessels on the part of any such corporation in which the United States is then a stockholder shall cease and the said corporation stand dissolved." When this is done, the Board is directed to take over all stock owned by others than the United States at a fair and reasonable compensation.

For the acquisition of ships, or the purchase of stock in any corporation created by the Board for this purpose, the Act made a direct appropriation of \$50,000,000 and authorized the Secretary of the Treasury, upon the request of the Board and the approval of the President, to sell bonds for this purpose to the amount of another \$50,000,000.

In the exercise of the powers thus conferred upon it, the Board on April 16, 1917, organized under the laws of the District of Columbia a corporation, with a capital stock of \$50,000,000, the maximum amount permitted by the Act, under the name of the United States Shipping Board Emergency Fleet Corporation. With the exception of qualifying shares of directors all of this stock was subscribed for by the Board. To this Corporation the Board delegated the exercise of all of its powers in respect to the acquisition and operation of vessels.

These powers relative to the acquisition and operation of vessels by the Shipping Board were greatly extended by subsequent legislation. By a joint resolution approved May 12, 1917, the President was authorized to



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take over for the United States the title and ownership of any enemy vessel within the jurisdiction of the United States. This power the President exercised by successive executive orders with the result that a total of 91 vessels, with an aggregate tonnage of 594,696, belonging to Germany or German citizens, were seized and turned over to the Shipping Board.

By provisions contained in the Urgent Deficiencies Appropriation Act of June 15, 1917, the President was given authority not only to take over any ship constructed, under construction, or that might thereafter be constructed, but practically to assume control of the entire shipbuilding resources of the Nation. He was thus empowered, within the limitations of appropriations made for the purpose:

(a) To place an order with any person for such ships or material as the necessities of the Government, to be determined by the President, may require during the period of the war and which are of the nature, kind, and quantity usually produced or capable of being produced by such person.

(b) To modify, suspend, cancel, or requisition any existing or future contract for the building, production, or purchase of ships or material.

(c) To require the owner or occupier of any plant in which ships or materials are built or produced to place at the disposal of the United States the whole or any part of the output of such plant, to deliver such output or part thereof in such quantities and at such times as may be specified in the order.

(d) To requisition and take over for use or operation by the United States any plant, or any part thereof without taking possession of the entire plant, whether the United States has or has not any contract or agreement with the owner or occupier of such plant.

(e) To purchase, requisition, or take over the title to or the possession of, for use or operation by the United States, any ship now constructed, or in the process of construction, or

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hereafter constructed, or any part thereof, or charter of such ship.

This Act also authorized the expenditure by the President of not to exceed \$250,000,000 for the purchase, requisition, or acquisition of plants, materials, charters, or ships already constructed, or in course of construction, or the expediting of the construction of such ships, exclusive of the cost of ships turned over to the Army and the Navy; \$500,000,000 for the cost of constructing ships; and \$5,000,000 for the operation of ships other than those acquired by the Army and the Navy. Of these sums there was appropriated under the first head \$150,000,000; under the second head, \$250,000,000; and under the third head, the full amount of authorized expenditure. The Act further provided that the War and Navy Departments should reimburse these appropriations from their appropriations for the cost of vessels turned over to them. Other sections fixed the manner of determining the just compensation to be paid for ships, plants, and material requisitioned.

The Act provided that the President might exercise the powers thus conferred upon him through such agency or agencies as he might determine. In pursuance of these provisions the President by executive order of July 11, 1917, delegated the exercise of these powers to the Shipping Board. The exercise of these powers, it should be noted, was limited to the period of not to exceed six month after the proclamation of peace.

By an Act of October 6, 1917, the Shipping Board was authorized, during the period of the war, to suspend the present provisions of law and permit vessels of foreign registry and foreign-built vessels admitted to registry under the Act of August 18, 1914, to engage in the coast-wise trade of the United States.

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By an Act of March 1, 1918, the United States Shipping Board Emergency Fleet Corporation was authorized to acquire by purchase, lease, or otherwise land suitable for the construction of houses for the use of employees of shipyards in which ships were being constructed for the United States; to construct thereon houses for such use; to sell, lease, or otherwise arrange for the use of these houses by shipyard employees and their families; to acquire by purchase, lease, or otherwise, houses already constructed for such use; and to make loans to persons, firms, or corporations for the supply of such housing facilities. With this authorization was given the right to requisition or condemn property for the purpose stated. The sum of \$50,000,000 was appropriated to meet the expenses of this work.

By an Act of April 22, 1918, the emergency-shipping fund provisions of the Urgency Deficiencies Appropriation Act of June 15, 1917, were amended so as to confer power upon the President to take possession of, lease, or assume control of any street railroad, interurban railroad, or any part thereof and all cars, appurtenances, and franchises commonly used in connection with the operation thereof necessary for the transfer or transportation of employees of shipyards or plants engaged in the construction of ships or ship equipment for the United States. By executive order of June 18, 1918, the exercise of these powers was conferred by the President upon the Emergency Fleet Corporation.

On July 15, 1918, the Act establishing the Shipping Board was amended so as to correct certain defects in it which had become evident in the course of its administration, and especially so as to strengthen the control of the Board over the disposition of vessels of American registry to citizens of other countries. The general pur-

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pose of this amendatory Act was set forth in the report of the House Committee on Merchant Marine and Fisheries, recommending its passage, as follows:

Section 9 of the Shipping Act of September 7, 1916, makes it unlawful during a period of war or emergency, without the approval of the Shipping Board, to sell to a foreigner or transfer to a foreign flag any vessel registered or licensed and enrolled under the laws of the United States. The present bill is designed to perfect and extend this provision, by amendment and by the addition of further sections, to supply defects and to meet practical difficulties of administration which over a year's experience under the Shipping Act has revealed. The new legislation is rendered necessary by the dearth of tonnage created by the unrestricted submarine warfare of the Imperial German Government. As a consequence of this shortage there has been during the past two years a systematic, determined, and resourceful effort on the part of foreign financial interests to buy up and take from under the American flag the vessels of the American merchant marine. Prices have been tendered which before the war would have seemed beyond the dreams of avarice. Every type of vessel, from schooner to ocean liner, has been coveted. Most American shipowners, to their great credit, have resisted these tempting offers. Others have found their efforts frustrated by the Shipping Board. A small minority of shipowners, however, have attempted by every device which legal ingenuity could suggest to evade the provisions of the President's proclamation. It is to meet the efforts of this small minority that the present bill has been drafted. It is also designed to give to the Shipping Board a more complete control over construction of vessels for foreign account and purchase of American shipyards by foreigners.

The bill is a war measure and, excepting a few provisions which will be specially referred to in this report, its effect is restricted to periods of war or emergency.

Finally, by an Act of July 18, 1918, the President was given, for the period of the war, and for not to exceed nine months thereafter, if the President by proclamation declared such need to exist, almost plenary powers over

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the entire shipping industry of the country from the operation standpoint. He was thus empowered:

1. To require that vessels of the United States of any specified class or description, or in any specified trade or trades, should not be chartered unless the instrument in which such charter was embodied and the rates, terms, and conditions therein set forth had been first approved by him.
2. To determine, prescribe and enforce reasonable freight rates and terms and conditions of affreightment which shall govern the transportation of goods on vessels of the United States, and which shall be filed with the Shipping Board and be open to public inspection.
3. To prescribe the order of priority in which goods shall be carried or other service performed by any vessel of the United States, and to specify goods which shall be carried, or to direct the voyage or employment of any such vessel and to make rules, regulations and orders with respect to any such vessel relating to the loading, discharging, lighterage, or storage of goods or the procurement of bunker fuel or any other matter relating to the receiving, hauling, transporting, storing or delivering of goods which in his judgment might be necessary and proper for the efficient utilization of transportation facilities and the effective conduct of the war.
4. To make such rules, regulations and orders regarding voyages, courses, the use of protective devices and any other matters affecting the navigation, equipment, fueling, pointing or arming of vessels of the United States, as in his judgment were conducive to the protection of such vessels from war perils, any expense so incurred to be allowed for in determining freight and charter rates as provided for by this Act.
5. To require that no citizen of the United States or any other person subject to the jurisdiction of the United States shall charter any vessel of foreign nationality unless the instrument in which such charter is embodied and the rates, terms and conditions thereof are first approved by him.
6. To requisition for military purposes, or for any other national purpose connected with or arising out of the present war, the temporary possession of any vessel, or without taking actual possession, to requisition the service of any vessel



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and to require the person entitled to the possession thereof to issue to the master such instructions as may be necessary to place the vessel at the service of the United States.

7. To prescribe the priority in which persons in possession of dry docks, wharves, lighterage systems, or loading or discharging terminal facilities in any port of the United States, or warehouses, equipment or terminal railways connected therewith, shall serve vessels and shippers.

8. To prescribe and enforce the rates, terms and conditions charged for or required for the furnishing of such terminal services, including stevedoring and handling of cargo and the handling, dispatching and bunkering of vessels, and to make such rules and regulations with respect to the conduct of any such business as may be deemed proper by him.

9. To lease or requisition the use or temporary possession of, or to assume temporary control of any dry docks, wharves, or loading or discharging terminal facilities in any port of the United States, or warehouses, equipment, or terminal railways connected therewith.

The provisions of this Act, taken in connection with those of the Shipping Act and its amendments, show that, in broad terms, the President was authorized, during the period of the war and for some months thereafter, to take over and run the shipping and shipping agencies of the country almost, if not quite, as completely as he was authorized to take over and run the railroads, telegraphs, and telephones of the country, and, short of doing so, to prescribe in the last detail the rates and other conditions that should be observed by such undertakings. The exercise of almost all these powers was vested by the President in the Shipping Board or its subordinate agency, the Emergency Fleet Corporation.

In the foregoing has been given a rapid sketch of the steps taken by the Government to provide means by which its shipping needs might be met. It is impossible



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within the scope of the present work to give anything like a detailed account of the vast organization that was built up by the Shipping Board and its Emergency Fleet Corporation for the performance of its work or of the manifold activities that they had to engage in.<sup>1</sup> The best that can be done is to give some general idea of the main features of its work. That its operations have been on a huge scale need hardly be mentioned. In its annual report submitted December 1, 1917, the Shipping Board said of its Emergency Fleet Corporation:

The Corporation is now engaged in what is probably the greatest construction task ever attempted by a single institution. It has developed for this purpose within a period of six months an organization of more than 1,000 employees, including a large force of technical experts many of whom have left remunerative positions to assist in this vital enterprise. The Corporation has 16 offices in various parts of the country. It is supervising the building of 1,118 vessels in 116 shipyards distributed throughout the United States. It is disbursing for the construction of those ships something in excess of a billion dollars per annum. It is controlling substantially all the shipbuilding of the country other than naval vessels, and its program calls for the completion in 1918 of eight times the tonnage delivered in 1916.

Because of the fact that at the time of the creation of the Corporation the shipyards of the country were already working at practically capacity on vessels for the Navy and for foreign account, primarily British and Norwegian, the Corporation had immediately to take steps for the extension of existing yards and the construction of new yards. This it did by inducing corporations and individuals to enter the field by promises of orders and the grant of aid in various ways. Of the new

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<sup>1</sup> This subject will be covered in detail in this series in Edward N. Hurley, *Merchant Shipping in War Time and After*.

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shipbuilding plants thus created much the most important was that at Hog Island on the Delaware River, constructed and operated by the American International Shipbuilding Corporation. The building of this plant, which is much the largest shipbuilding plant in the world, gave rise to much criticism on the ground that great extravagance in the expenditure of money occurred. Its cost, which was originally estimated at around \$22,000,000, ran to over \$50,000,000. It is impossible to say at this time whether this was due to improper management, to a failure on the part of the Emergency Fleet Corporation to make its contract with the building corporation on a proper basis and subsequently to control the expenditure of funds, or to an extension of the scope of the work or circumstances growing out of the conditions under which the work had to be performed over which the Government and the constructing corporation had no control.

Acute controversy also arose over the types of ships that should be built—steel, wood, composite, or concrete. Differences regarding this point existed within the Shipping Board as well as outside; and, due to it and other causes, there was in the initial stages much friction between officials, particularly between those of the Shipping Board and the Fleet Corporation, in regard to their respective jurisdictions and powers. These differences were only finally adjusted by the resignation or dismissal of a number of officers occupying the more important administrative positions. With the appointment of Charles M. Schwab as Director-General of the Emergency Fleet Corporation these troubles were apparently finally overcome and the work thereafter was pushed with the utmost energy and dispatch.

The construction programme of the Corporation, as

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reported in June, 1918, called for the building of 1,856 ships ranging from 5,000 to 12,000 tons each, and with an aggregate dead weight tonnage of 13,000,000, not including 850,000 tons of barges, composite vessels, concrete ships, tugs, and other miscellaneous vessels.

A feature of the shipbuilding programme deserving special notice was the extent to which the policy was adopted of building what were known as standardized or fabricated vessels. Under former conditions each vessel, or in some cases each pair of vessels, was built according to plans specially devised for it, and the work was almost entirely done at the shipyard in which the vessel was built. The plan of fabricated ships called for the building of a large number of ships according to the same plan and the manufacture of the several parts entering into the ships in plants scattered throughout the country, the shipyards themselves doing little more than assemble these parts as delivered to them.

The securing of vessels by contracting for their construction represented, however, but one of the means by which the Emergency Fleet Corporation secured its vessels. As has been pointed out, the President by executive order transferred to it 91 ships, with an aggregate tonnage of 594,696, formerly belonging to Germany, which were seized by our Government upon its entrance into the war. These vessels were rapidly repaired and altered to adapt them to the services for which they were needed. Many were transferred to the War Department for use as transports in the dispatch of troops to France. Another means of acquiring tonnage was that of requisitioning ships in process of construction or already in service. Acting under the President's order of July 11, 1917, the Corporation on August 3, 1917, requisitioned all steel ships of over 2,500 dead-

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weight tons under construction in American yards. In this way it secured 413 ships in various stages of construction of a total dead-weight tonnage, when completed, of 2,937,808. On October 15, 1917, the Corporation requisitioned all power-driven steel cargo vessels and all passenger vessels of 2,500 gross dead-weight tons adapted to ocean service. The reasons for taking this action were the necessity for controlling the freight-rate situation, rates having risen to an enormous figure, and the need for controlling to better advantage the uses to which all available tonnage should be put. In large part the operation of vessels requisitioned in service was entrusted to the companies by whom they were formerly controlled. Thereafter, however, these vessels were operated under charter from the Corporation. Finally, a large number of vessels, many of recent construction, were brought from the Great Lakes to the Atlantic seaboard. Sixteen of the vessels so transferred were too long to go through the locks in the canals and had to be cut in two for the voyage and afterwards reassembled.

The acquisition of ships by construction, requisition, seizure, charter, or otherwise constituted but the first phase of the duties of the Fleet Corporation. It had next to provide for the operation of these vessels. In respect to this it used a number of methods. A considerable number of ships were transferred to the War and Navy Departments for use by them in their operations. Other ships, and particularly those requisitioned while in operation, were chartered to private shipping companies under conditions that permitted the Corporation to determine their use, to the end that they should be employed only in work essential to the prosecution of the war or the satisfaction of the essential requirements of

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the American people. A certain number of vessels were transferred to foreign registry, for which power had been conferred upon the Shipping Board by the Shipping Act. Regarding the exercise of this power, the Board, in its annual report for 1917, said:

The authority so conferred is in the main a war power. It was obviously conferred upon the Board in order that there should be created that centralized control of tonnage which is requisite for its effective mobilization in the conduct of the war. In the exercise of this power, therefore, the Board acts as an agency through which the allocation of tonnage for the diverse and rapidly changing needs of war is sought to be effected. In passing upon each application it became necessary to seek to balance the present and future requirements of our naval and military forces, the requirements of such of our trades as deal with the production of munitions and military supplies, the requirements of our allies for similar purposes and for the transportation of foodstuffs, and lastly, the ordinary trade requirements of our citizens in so far as they may be conserved without detriment to other demands.

As the war progressed the system of practically pooling shipping resources by the Allies was steadily perfected. Through the establishment in London of an Allied Shipping Council and other means the United States and our allies determined from day to day the most effective use that could be made of their ships.

Finally, the Fleet Corporation pursued the policy of directly operating many of its vessels. For this purpose it organized a special operating department the financial operations of which were kept separate and distinct from those relating to construction and other work of the Corporation.

An extremely difficult task thrown upon the Shipping Board was that of securing the officers and men to man

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its vessels. To a large extent this class of labor was non-existent. On June 1, 1917, a recruiting service was established with offices in the Customshouse Building at Boston, and the work of training deck officers was undertaken. Free Government training schools for merchant-marine officers were established at 32 points on the Atlantic and Pacific coasts and the Great Lakes. The teaching staffs of these schools included experienced sea captains and teachers from scientific schools and technical colleges. The Steamboat Inspection Service passed upon applications for entrance to the nautical schools, two years' experience at sea being one of the important requirements. Eight free engineering schools were established at different places throughout the country for the training of marine engineers. Training ships were also provided for the training of ordinary seamen. The Board had also to devote much attention to the matter of securing labor for the shipyards in which its vessels were being constructed. To handle this work it created an Industrial Service Department. This Department not only concerned itself with the problem of recruitment of labor in the ordinary sense, but also, with the coöperation of the heads of certain international labor unions, with that of industrial education. An instructor training center was established at Newport News to which from 75 to 150 skilled mechanics were detailed by selected yards for a six-weeks course in the art of imparting knowledge of their trades to labor recruits.

Another phase of the labor problem of equal importance and still greater complexity was that of determining the conditions under which labor, when secured, should give its services and of preventing or adjusting disputes with labor regarding such conditions. Of all



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the administrative branches of the Government none had these problems presented to it in a more acute form than the United States Shipping Board. Its construction programme called for the assembling of a labor force of hundreds of thousands of men. Its plants and those of contractors working for it were scattered throughout the United States. Each one of these plants was an active competitor for labor not only with concerns in other lines, but with each other. It is evident that unless vigorous action had been taken by the Board to stabilize conditions in respect to labor employment, the situation would soon have become an impossible one.

To meet this problem the Emergency Fleet Corporation, the Navy Department and the American Federation of Labor called to Washington representatives of the leading labor unions having to do with shipbuilding for the purpose of formulating programmes to govern the handling of labor in the shipyards of the country. The outcome of these conferences was the adoption on August 20, 1917, of an agreement providing for the immediate creation of a body known as the Shipbuilding Labor Adjustment Board with the function of determining labor conditions in the shipyards and adjusting all labor disputes that might arise. One of the members of this Board was to be designated by the President, one by Samuel Gompers, the President of the American Federation of Labor, and one by the Emergency Fleet Corporation. When navy work was concerned, the Secretary of the Navy was to designate a member to sit with the Board. In case of a tie when the Navy representative was serving, the deciding vote was to be cast by the Secretary of War as Chairman of the Council of National Defense.

Under the terms of this agreement the President desig-

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nated V. Everit Macy, President of the National Civic Federation, as his representative and as Chairman of the Board. L. A. Coolidge was designated by the Emergency Fleet Corporation as its appointee, and A. J. Berres was similarly designated by Mr. Gompers, acting as President of the American Federation of Labor. Franklin D. Roosevelt, Assistant Secretary of the Navy, was the representative of the Navy Department when participation on the part of the Navy was necessary.

The execution of this agreement had the immediate result of preventing the outbreak of a strike of all the shipyard employees on the Pacific Coast and a strike of shipyard employees at New York City, strikes which, if they had occurred, would have been little short of a disaster. Since its creation the Board has issued a number of orders fixing the wages to be paid shipyard employees and other conditions of labor. Among these mention may be made of its orders fixing wage rates in shipyards on the North Atlantic Coast and the Hudson River and in shipyards about the Great Lakes, announcements of which were made in the *Official Bulletin* of April 10 and 26, 1918.

In the same way as provision had been made for the determination of labor conditions in shipyards, so it was equally imperative that labor conditions in respect to the loading and discharge of vessels in service should be fixed. To meet this need an agreement was reached early in August, 1917, between the Secretary of War, the Secretary of Labor, the United States Shipping Board, Mr. Gompers, as representing the American Federation of Labor, the International Longshoremen's Association, and the chief shipping operators for the creation of a commission to be known as the National Adjustment Commission which should have the function of fixing the

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wages and other conditions of labor employed in loading and unloading ships. It was provided that this Commission should be composed of one member appointed by the Secretary of War, one by the Shipping Board, one by the Longshoremen's Association, and one by the Committee on Shipping of the Council of National Defense.

This Commission was constituted on August 8, 1917, with R. B. Stevens, Vice-Chairman of the Shipping Board as representative of that service and chairman of the Commission; Walter Lippman, Assistant to the Secretary of War, as representative of the War Department; T. V. O'Connor of Buffalo, as representative of the Longshoremen's Association; and P. A. S. Franklin, as representative of the Committee on Shipping of the Council of National Defense in all cases involving foreign trade, and H. H. Ramon, in all cases involving coastwise traffic. In accordance with the terms of the agreement local adjustment commissions were also created at the most important shipping ports.

Still a third class of labor whose conditions of employment had to be determined was the men engaged in the operation of vessels. In August, 1917, the matters here involved were threshed out in a series of conferences between the Department of Commerce, the Department of Labor, the Shipping Board, and representatives of the ship owners and operators and mariners' associations of the United States. These conferences resulted in the formation of a committee to represent all parties with power to determine employment conditions for all classes of labor engaged in the operation of vessels constituting the American merchant marine. This committee at once reached an agreement relative to the wages to be paid certain classes of labor. In May, 1918, a large conference, which was designated the National

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Marine Conference, was held in Washington at which rules were adopted governing chiefly the matter of the wage schedules of marine engineers.

Still another matter of great importance demanding the attention of the Shipping Board was that of increasing the port facilities of the country and of taking steps for the more effective utilization of such facilities as existed. In a statement given to the public on September 21, 1918, the Board stated that a doubling or trebling of the docks, piers, marine railways, and terminal facilities generally of the United States would be required to handle the business of the swiftly increasing American merchant marine. The Board consequently created a Port and Harbors Facilities Commission to consider this whole matter. This Commission at once entered upon a complete inventory of the port facilities of the country. Every port used by ocean-going traffic was requested to forward to it detailed data concerning its docks, marine railways, terminal arrangements, repair plants, and the movement of trade during the past five years. In addition every dock and repair plant was called upon for similar data. A matter to which it gave special attention was that of the diversion of traffic from one port to another in order to prevent the congestion that was taking place at certain ports and especially at New York. In this work it acted in close coöperation with the Railroad Administration. It is hardly necessary to point out the importance of this work from the standpoint of both the efficient operation of our merchant marine and the railroad system of the country.

The foregoing enumeration of some of the specific tasks of the Shipping Board and its administrative

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agency, the Emergency Fleet Corporation, gives but an inadequate idea of the scope or character of the work done by this body. Actually it was empowered to take over the entire marine shipping industry of the country and to operate it as a unit to almost, if not quite, the extent to which similar powers in respect to steam railroads were conferred upon the Railroad Administration. There is scarcely a feature of the shipping industry, from the building of plants in which to build ships to the actual operation of the ships, with which the Board did not concern itself. When ships were not directly operated by it, it controlled charters, voyages, freight rates, conditions of labor and service generally, down to almost the last detail. The function of approving charters was performed through the Chartering Committee with offices in New York. It issued and enforced rules regarding the camouflaging of vessels and the precautions to be taken by vessels in passing through danger zones. It organized a service by which it had knowledge at any moment of where each ocean-going vessel of the United States was and by cable or wireless directed its movement in much the same way as a train dispatcher controls the movement of trains.

As in the case of the railroads, the return of peace presents the great problem as to whether this system with its manifold advantages will be broken up. In some respects this problem is a more difficult one than that in respect to the railroads on account of the international features that are involved in it. It is extremely likely that other countries will adopt the policy of Government control over shipping engaged in foreign trade to a far greater extent than in the past. It may well be that the United States may be forced by such action to follow suit.



## CHAPTER VIII

### THE MOBILIZATION OF INLAND TRANSPORTATION AND COMMUNICATION

Situation of the railroads at the outbreak of the war — Necessity for a unified transportation system — Reversal of Government policy — Committee on Transportation and Communication of the Council of National Defense — The Railroads' War Board — Its important services through voluntary co-operation — Considerations leading to the proclamation of Government control and operation — Creation of the Railroad Administration — The Railroad Control Act of March 21, 1918 — Compensation of the railroads under Government operation — The Revolving Fund and capital expenditures — Powers of the President to initiate rates, regulations, and practices — Organization of operation under the Railroad Administration — Federal control of inland and coastwise water transportation, express service, and the Pullman Company — The labor problem — The Adamson Act and the eight-hour day — The Railroad Wage Commission and its recommended wage increases — Board of Railway Wages and Working Conditions — Railway Boards of Adjustment — Results of Government control of the railroads — Financial difficulties — Government control and operation of the telegraph, telephone, and cable systems under the Post Office Department — The movement for Government ownership of communication facilities.

The industry of inland transportation is like that of coal in that it constitutes one of the vital links in our entire industrial system. Any interruption in its due functioning produces immediate disaster. It was exceedingly unfortunate that our entrance into the war found this link in a condition in which it was ill fitted to bear the increased strain that was put upon it. For some years past the railroads, largely because of their inability to secure the new capital required, had failed to make their facilities in the form of trackage, terminals, motive power, and cars keep pace with the development of the



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country and the volume of their business. This volume of business was enormously increased by our entrance into the war. Millions of men had to be transported to camps and subsequently moved for transport to Europe, and tens of millions of tons of freight over and above the normal peace requirements had to be transported for the supply of these camps and the shipment of munitions, foodstuffs, and supplies of all sorts to our Allies and our own troops in France.

The greatest impediment in the way of the railroads' meeting this added burden, even in measurable degree, lay in the fact that they did not constitute a single integrated system of transportation. Not only did the railroad system consist of a large number of independent roads, each seeking its own particular interests, but in regard to many important features of their business the railroads were not even allowed to act together. The result was that one road, although in urgent need of additional terminal facilities, locomotives, or cars, could not draw upon the resources of another road the facilities of which might be only partially employed, and throughout the railroad business there was unnecessary duplication in service on a large scale. This situation was graphically set forth in a report of the Interstate Commerce Commission to Congress under date of December 1, 1917, to which further reference will be made hereafter. In this report the Commission said:

The railroads of the country came into being under the stimulus of competition. From the outset their operation and development have been responsive to a competition which has grown with the growth of population and industry. This competitive influence has been jealously guarded and fostered by State laws and constitutions, as well as by Federal law. The keenness of rivalry naturally drew to the front those who

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were quick to seize and resolute to retain every available point of vantage for their respective roads. Terminals, if confined to exclusive use, were not only of strategic importance but profit-yielding assets. Out of competition grew rate wars, pooling, mergers and consolidations into systems, as well as the rebating and other preferential treatment of shippers, which the act to regulate commerce was primarily framed to prevent. In that act the Congress, accepting the competitive principle as salutary, has thrown about it prohibition against compacts for the pooling of freights or divisions of earnings of different and competing railroads, and, while the original act is but the nucleus of the act we now administer, that prohibition has remained unchanged.

Concretely, therefore, the situation on our entrance into the war was one in which, on the one hand, it was impossible for the transportation needs of the country to be met except through the operation of all the railroad facilities of the country as one unified, harmonious system; and, on the other, not only was there no approach to such a system, but the law and the whole policy of the Government towards the railroads was opposed to its establishment.

Fortunately it was at once seen that this policy must be reversed and the law itself circumvented so far as circumstances would permit. Attempts to meet the situation were made concurrently by the Council of National Defense and the railroads themselves. The Advisory Commission of the Council created a Committee on Transportation and Communication under the chairmanship of Daniel Willard, President of the Baltimore and Ohio Railroad and a member of the Commission, to concern itself with all matters having to do with the effective utilization of the railroads for war purposes. This Committee immediately took up with the railroads

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the matter of perfecting their organization so that they might be able to meet the demands of the War Department in respect to the movement of troops and military supplies. At the suggestion of Mr. Willard the railroads formed four committees to act in conjunction with the commanders of the four military departments. Through these committees the War Department was enabled to plan and put into execution its programme in respect to the concentration of troops and the moving of supplies.

In testimony on May 23, 1917, before a subcommittee of the Committee on Appropriations of the House of Representatives, in hearings on the Senate amendments to the deficiency bill for military and naval purposes, Mr. Willard said that at the time of its inception the formation of the Committee of the Council of National Defense seemed all that was necessary for the railroads to do in the way of coöperating with the Government. It soon became apparent, however, that far more important measures would have to be taken if the railroads were to handle with any measurable degree of efficiency the increased business thrown upon them. At Mr. Willard's suggestion, accordingly, the Council of National Defense on April 7, 1917, passed a resolution requesting his Committee to call upon the railroads to take such joint action as would result in the most expeditious handling of business. In response to this request Mr. Willard wired the presidents of all the important railroads of the country to meet in Washington on April 11, 1917. Nearly 50 presidents responded to this call, and all of the important roads of the country were represented directly or by proxy. At this meeting the roads pledged themselves to subordinate their individual interests and to conduct their operations solely with a

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view to serving the public interests. In a formal resolution they thus declared:

That the railroads of the United States, acting through their chief executive officers here and now assembled, and stirred by a high sense of their opportunity to be of the greatest service to their country in the present national crisis, do hereby pledge themselves, with the Government of the United States, with the governments of the several states, and one with another, that during the present war they will coördinate their operations in a continental railway system, merging during such period all their merely individual and competitive activities in the effort to produce a maximum of national transportation efficiency. To this end they hereby agree to create an organization which shall have general authority to formulate in detail and from time to time a policy of operation of all or any of the railways, which policy, when and as announced by such temporary organization, shall be accepted and earnestly made effective by the several managements of the individual railroad companies here represented.

The latter part of this resolution was carried into effect by the creation by the American Railway Association of a special Committee on National Defense, which in turn created an Executive Committee of five presidents of leading railroads: Fairfax Harrison, President of the Southern Railroad; Samuel Rea, President of the Pennsylvania Railroad; Julius Kruttschnitt, Chairman of the Executive Committee of the Southern Pacific Railroad; Hale Holden, President of the Chicago, Burlington and Quincy Railroad; and Howard Elliott, President of the New York, New Haven and Hartford Railroad. Mr. Willard, as Chairman of the Advisory Commission of the Council of National Defense and of its Committee on Transportation and Communication, was requested to act with this Committee as an *ex officio* member, and the Interstate Commerce Commission was

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invited to designate one of its members to act in a like capacity.

This Executive Committee was popularly known as the Railroads' War Board. It is important to note that although it worked in close coöperation with the Council of National Defense and by many was mistakenly considered as one of the subordinate units of that organization, it was a committee constituted by and representing the railroads and not the Government. This Committee opened headquarters at Washington and organized a large staff, the entire expenses of which were defrayed by the railroads. The members of the Committee themselves gave practically their entire time to the work of the Committee without remuneration from the Government.

There can be no question regarding the loyal and effective work done by this Committee. In scores of ways it took action looking to the more effective utilization of cars and railway facilities generally, the reduction in the number of trains, the reciprocal use by the roads of each other's tracks and terminals. In regard to this action Mr. Willard in his testimony before the subcommittee of the House Committee on Appropriations above referred to frankly stated that:

We are exercising a somewhat arbitrary power at the present time which we have no right to exercise, but we are doing it after consultation with members of the Cabinet and the Council in what seems to be the public interest. But it ought not to be handled in that way. There ought to be a legally established priority committee which will sit and hear evidence in all these cases and decide what particular thing should in the public interest be moved first. I hope that this will be provided for soon, because it is really essential.

The need here alluded to was met, at least in part,



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by the passage on August 10, 1917, of the Act amending the Interstate Commerce Act and known as the Preferential Shipments Act, which empowered the Interstate Commerce Commission, during the continuance of the war, to assume complete control over the use of cars by railroads, and the appointment by the President on August 17, 1917, of Judge R. S. Lovett, one of the members of the Advisory Commission of the Council of National Defense, as Priority Commissioner in respect to shipments by the railroads of the country.<sup>1</sup>

Although much good was accomplished through these several agencies, it became increasingly apparent that the full needs of the situation could not be met by them. On December 1, 1917, the Interstate Commerce Commission sent to Congress a special report, from which we have already quoted, in which it reviewed the whole situation and added that the only way in which the needs of the Government and the public could be met was by the complete unification of the railroads of the country. This unification, the report pointed out, could be effected in either of two ways: by the repeal or suspension of the laws having for their purpose the maintenance of the competitive system and the placing of restrictions upon the right of roads to pool their resources and business, and the enactment of provisions encouraging or compelling such a merging of interests by the roads themselves; or by the Government itself taking over the roads and operating them as a single system. The report itself did not say which of these alternatives should, in the opinion of the Commission, be adopted. Commissioner Charles C. McCord, however, filed a sepa-

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<sup>1</sup> See Chapter VI.



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rate report in which he urged strongly the adoption of the second procedure.

It was this second alternative that the President adopted. Fortunately the power of the President to take this action had already been granted by Congress. In a section incorporated in the Army Appropriation Act for 1917, approved August 29, 1916, the provision had been made that:

The President, in time of war, is empowered, through the Secretary of War, to take possession and assume control of any system or systems of transportation, or any part thereof, and to utilize the same, to the exclusion, as far as may be necessary, of all other traffic thereon, for the transfer or transportation of troops, war material and equipment, or for such other purposes connected with the emergency as may be needful or desirable.

This section would indicate that Congress hardly had in mind the taking over of more than certain roads for purely military purposes. At the same time its wording was so broad as to leave no doubt regarding the power of the President to take over all the roads of the country, if in his opinion such action was necessary. By a proclamation dated December 26, 1917, the President announced that he had decided to avail himself of the authority thus granted, and that all of the railroads of the country, with the exception of such branch or private lines as might be specially designated, and the system of water transportation should be taken over and run by the Government on January 1, 1918.

In reaching this decision the President was actuated by a number of considerations. First among these was, of course, that of securing a more effective utilization of the railroad facilities of the country. Second was the fact that the attempted unification of the operation

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of the roads by the roads themselves had led to injury to certain roads which tended to become more and more serious. Thus, in his explanatory statement to the public accompanying the issue of the proclamation, the President said:

Complete unity of administration in the present circumstances involves upon occasion and at many points a serious dislocation of earnings and the [railroad] committee was, of course, without power or authority to rearrange charges or effect proper compensations and adjustment of earnings. Several roads which were willingly and with admirable public spirit accepting the orders of the committee have already suffered from these circumstances and should not be required to suffer further. In mere fairness to them the full authority of the Government must be substituted.

Another consideration was the financial difficulty of the roads in securing the new capital required to increase their equipment and facilities without paying excessive interest rates or interfering with the efforts of the Government itself to secure funds through the floating of bonds. And finally must be mentioned the important and delicate question of labor. Although the President made no mention of this in his statement, there can be no doubt that in reaching his decision he was influenced largely by the danger which existed under private management of a cessation of operation through the inability of the roads and their employees at all times to agree regarding the wages and other conditions of services that should be accorded labor.

The proclamation of December 26, 1917, in addition to announcing the taking over of the roads, provided for the creation of a Railroad Administration, with a Director-General of Railroads at the head, to have entire charge of the operation of the roads taken over, and

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announced that William G. McAdoo, Secretary of the Treasury, had been appointed to that office.

One of the most vital points to be provided for was, of course, that of fixing the financial arrangements that should exist between the Government and the railroads during the time that the roads were in the possession of the Government. In respect to this the President in his statement said: "Investors in railway securities may rest assured that their rights and interests will be as scrupulously looked after as they could be by the directors of the several railway systems." The proclamation itself provided that:

The director shall, as soon as may be after having assumed such possession and control, enter upon negotiations with the several companies looking to agreement for just and reasonable compensation for the possession, use and control of their respective properties on the basis of an annual guaranteed compensation above accruing depreciation and maintenance of their properties, equivalent, as nearly as may be, to the average of the net operating income thereof for the three year period ending June 30, 1917, the results of such negotiations to be reported to me for such action as may be appropriate and lawful.

But nothing herein contained, expressed, or implied, or hereafter done or suffered hereunder, shall be deemed in any way to impair the rights of the stockholders, bondholders, creditors, and other persons having interests in said systems of transportation, or in the profits thereof, to receive just and adequate compensation for the use and control and operation of the property hereby assumed.

Regular dividends hitherto declared, and maturing interest upon bonds, debentures, and other obligations, may be paid in due course; and such regular dividends and interest may continue to be paid until and unless the said director shall, from time to time, otherwise by general or special orders determine; and, subject to the approval of the director, the various carriers may agree upon and arrange for the renewal and extension of maturing obligations.

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On January 4, 1918, the President delivered a special message to Congress, urging the immediate enactment of legislation that would provide for the protection of the interest of investors in railway securities along the lines laid down in his proclamation and would give to the Railroad Administration the power and funds with which to meet requirements in respect to capital expenditures and the payment of all charges that might not be covered by the earnings of the roads while under the management of the Government. This Congress did by the passage of an Act of March 21, 1918, entitled, "An Act To provide for the operation of transportation systems while under federal control, for the just compensation of their owners and for other purposes." It is not feasible for us here to enter upon any detailed consideration of the technical features of this Act.<sup>2</sup> Certain of its more important provisions should, however, be mentioned.

The Act, in the first place, ratified, or at least gave legislative approval of the act of the President in taking over the systems of railway and water transportation and the provision made by him for their administration. It declares, however, that this Act should be deemed to be one of emergency war legislation, and that Federal control over these systems should not extend beyond 21 months after the date of the President's proclamation of the exchange of ratifications of the treaty of peace.

In respect to the payment by the Government of compensation to the roads for the use of their property two methods of determining the amount to be paid were provided. The first authorized the President to enter

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<sup>2</sup> Full treatment of this and other features of Government control and operation of the railroads will be given in this series in Emory R. Johnson and Richard Waterman, *National Transportation in War Time and After*.

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into an agreement with any road for the payment to it by the Government of a sum equivalent, as near as might be, to the average annual railway operating income for the three-year period ending June 30, 1917, as ascertained by the Interstate Commerce Commission. The second provided that when an agreement on the above basis could not be reached, the amount to be paid should be fixed by the board of referees to be appointed by the Interstate Commerce Commission, and that the decisions of such board should be subject to review by the United States Court of Claims. This second method was provided in order to preserve the rights of the companies under the provision of the Constitution that no person shall be deprived of his property except as determined by due process of law. It was expected, however, that in practically all cases compensation would be determined by the first method, and such in fact has been the case.

An interesting feature of the Act was that providing for what was designated as a Revolving Fund. This Fund was created in the first instance by the appropriation of \$500,000,000. To this Fund would be also carried any funds available from any operating income of any road. From the moneys thus accumulated the Railroad Administration was directed to pay the expenses of Federal control and the compensation to roads agreed upon in so far as such payments could not be made from the income of the roads themselves; to provide additional terminals, rolling stock, and other equipment; to make advances to roads with which to make such capital expenditures at such a rate of interest and subject to such conditions of repayment as the President might fix; and to purchase securities issued by the roads as authorized by the President for the purpose of meet-

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ing these obligations. Express authorization was also given for the utilization of this Fund for the operation of canals or for the purchase, construction, or use and operation of boats, barges, and other transportation agencies on the inland canal and coastwise waterways.

Finally, the Act authorized the President during the period of Federal control to initiate rates, classifications, regulations, and practices by filing the same with the Interstate Commerce Commission, which rates, regulations, and practices should immediately enter into force and continue until modified or set aside by the Interstate Commerce Commission after a full hearing. In reaching its decisions the Interstate Commerce Commission was directed to give due consideration to the fact that the roads were being operated under a unified and coördinated national control and not as competing units. The Act, however, further provided that if the President certified to the Commission that such changes in rates, classifications, regulations, and practices were necessary in order to provide the operating revenues necessary to meet expenses of operation and other obligations, the Commission, in determining the reasonableness of such rates, classifications, etc., should take into consideration such certification of the President and such recommendation in relation thereto as he might make.

It is of interest to contrast the policy of the United States Government with that of Great Britain in assuming control over the railroads of the country for war purposes. The British Government left the roads in the possession of their owners and merely designated them as its agents, in return for which it guaranteed to them an income at least equal to that which they had enjoyed in 1913. The United States Government, on the other



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hand, assumed full possession of the roads and their direct operation under an arrangement whereby it stood to gain or lose according to the financial results obtained, and the roads themselves were guaranteed an income equal to the average income enjoyed by them during the three-year period ending June 30, 1917. For all practical purposes the Government while in possession could operate the roads as if it were their owner. It could thus make capital expenditures for improvements, in which case it would be entitled to a fair interest return on the sums so expended.

The length to which the Government went in the exercise of its power is illustrated by the action of the Director-General of Railroads in appointing a Federal manager for each of the roads taken over. In many cases the Federal manager was the President or other executive officer of the road while the road was under private management. The effect of this action by the Director-General was to make all railroad managers directly responsible to him instead of to the roads of which they had been officers.

This action is but an example of the fundamental policy pursued by the Railroad Administration of taking over the direct management of the railroads instead of leaving such management in the hands of the roads themselves. For administrative purposes the country was divided into seven regions, at the head of each of which was a regional director with a technical staff appointed by the Railroad Administration. Under the regional directors were district directors in charge of subdivisions of the regions, Federal managers in charge of the more important single divisions or groups of less important lines, general managers operating minor divisions, and terminal managers having control of all terminals at the

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more important railway centers and ports. Many of these officials, as has been pointed out, were the same persons who had been discharging these duties when the roads were under private management; but in respect to this important policy the Director-General, in his report to the President on the operation of the Railroad Administration during the first seven months of its existence, had this to say:

Inasmuch as no man can serve two masters and the efficient operation of the railroads for the winning of the war and the service of the public is the purpose of Federal control, it was manifestly wise to release the presidents and other officers of the railroad companies with whose corporate interests they are properly concerned from all responsibility for the operation of their properties, which will be in the hands of the regional directors, the district directors and the Federal and general managers above referred to, and who will be directly responsible to the Director-General. All ambiguity of obligation is thus avoided. The officers of the corporations are left free to protect the interest of their owners, stockholders and creditors and the regional and operating managers have a direct and undivided responsibility and allegiance to the U. S. Railroad Administration. In pursuance of this policy the regional directors, the Federal managers and the general managers have been required to sever any relations they may have had with the railroad corporations as either officers or directors and the corporate officers have been advised that they have no function to perform with respect to Government operations.

A feature of this system of Federal administration of national transportation agencies deserving special mention is that it embraced navigable waterways as well as railroads. One of the serious defects in our internal transportation system has been the failure to correlate these two agencies of transportation. This failure the Railroad Administration sought to correct by the de-

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velopment of means of water transportation and by providing for their utilization alone or in connection with the railroads. On February 16, 1918, the Director-General appointed an Inland Waterways Committee, headed by Major-General W. M. Black to consider the whole problem of the development and more effective utilization of the waterways of the country. On April 11, 1918, the President issued a proclamation taking over the four principal Atlantic coastwise steamship lines and placing their operation under the Railroad Administration. By this action the Railroad Administration was placed in a position in which it could route freight either by rail or water as the exigencies of the situation might render advisable. A few days later the Railroad Administration announced its intention of constructing and operating barges on the Erie Canal. On July 22, 1918, the President by proclamation took over and placed under the Railroad Administration the Cape Cod Canal.

Another important act of the Railroad Administration was the consolidation and unification of the express business of the country. As a first step in this direction the Director-General in May, 1918, authorized the four leading express companies, the Adams, American, Wells Fargo, and Southern, to effect a consolidation under the name of the American Railway Express Company. This done, he entered into a contract with this new Company to handle for the Railroad Administration all of its express business. On November 16, 1918, the President by proclamation took over this Company and placed it under the direct administration of the Railroad Administration. The Pullman Company had previously been taken over.

The result of these several steps was to bring under a central control practically all of the internal trans-

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portation agencies of the country. The ground was thus laid for the correlation and coördination of the work of these several agencies into a general transportation system that could not possibly have been secured while they were under separate management.

Undoubtedly one of the prime considerations leading to the taking over of the railroads by the Government was the critical situation that existed in respect to railway labor. Ever since the outbreak of the war evidence was accumulating that railway labor was becoming restive and was likely to make demands that the roads, in their straitened financial condition, would find it difficult to meet. One of the pressing problems confronting the Director-General of Railroads upon his assuming office was thus this question of the readjustment of railway wages. To understand this situation it is necessary to say a few words regarding the passage of what is known as the Adamson Act of 1916 relative to the compensation of railway labor and of the commission that was appointed in pursuance of its terms to consider the question of the adoption of a general eight-hour working day as a basis for the calculation of wages.

On March 29, 1916, a concerted demand was made by the four railroad Brotherhoods (Locomotive Engineers, Locomotive Firemen, Railway Conductors, and Railway Trainmen) that eight hours should be made the time measure of a day's work, there being then in existence a double standard of miles and hours, while leaving unchanged the combined hour and mileage method of payment as well as the miscellaneous provisions in the existing schedule. This demand was refused by the railroads on June 15, 1916, and the proposal was made that the whole controversy be submitted to arbitration either be-

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fore the Interstate Commerce Commission or in accordance with the provisions of the Newlands Act of July 15, 1913. This proposition was refused by the Brotherhoods, and on August 8, 1916, a strike was ordered. Such a strike would have interrupted railway communications throughout the United States and would have been a national calamity the gravity of which could not be calculated. To prevent such a disaster the President intervened. He called the representatives of the two sides to Washington and laid before them proposals for the settlement of their differences. These proposals were accepted by the Brotherhoods but refused by the railroads. The President thereupon went before Congress and in a special address, on August 29, 1916, recommended the passage of an act to establish the eight-hour day as the legal basis alike of work and wages in the employment of all railway employees actually engaged in the work of operating trains in interstate transportation, and to provide for the appointment of a commission by him to observe the actual results of the operation of such a system. In pursuance of this recommendation Congress passed the so-called Adamson Act, entitled, "An Act To establish an eight-hour day for employees of carriers engaged in interstate and foreign commerce and for other purposes," approved on September 3 and 5, 1916.

The railroads immediately instituted proceedings in the courts to test the constitutionality of this Act. As a result of this action the Brotherhoods again threatened to strike without awaiting the decision of the courts if a settlement were not at once effected. The President thereupon appointed a committee representing the Council of National Defense to attempt the settlement of the controversy. On March 19, 1917, the committee made an award which was in harmony with the eight-hour



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law but defined somewhat more specifically the application of the eight-hour basis to existing schedules and practices. This award provided for a Commission of Eight, the railroads and Brotherhoods each being represented by four commissioners, to decide disputes arising under the award. The award was accepted by both parties. On the same day, March 19, 1917, the Supreme Court of the United States rendered its decision sustaining the constitutionality of the Adamson Act (*Wilson v. New et al*, 243 U. S. 332). As stated by the Commission provided for by the Adamson Act in its report:

The eight-hour day as the measure of a day's work for the purpose of reckoning compensation of certain classes of railroad employees has thus become an accomplished fact. We do not understand that the roads have an intention of further contesting the establishment of the eight-hour day for the employees concerned in the negotiations.

The Commission provided for by the Adamson Act was duly constituted with Major-General George W. Goethals as Chairman. It submitted its report on December 29, 1917. This report, although having no direct bearing upon the settlement of the controversy, is an exceedingly valuable document as throwing light upon not only the effect of the workings of the Adamson Act, but the whole problem of the compensation of railway labor.

This was the situation on January 1, 1918, when the railroads were taken over by the Government. Immediately upon his appointment as Director-General, Mr. McAdoo announced that, as the result of a conference with the officers of the railway Brotherhoods, he had appointed a Railroad Wage Commission composed of Franklin K. Lane, Secretary of the Interior, Charles C. McChord, member of the Interstate Commerce Commis-



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sion, J. Harry Covington, Chief Justice of the Supreme Court of the District of Columbia, and William R. Wilcox, formerly Chairman of the Public Service Commission for the First District of New York, to investigate and report upon what readjustments should be made in the wages of railway employees. He announced at the same time that the decision made on the basis of this investigation would be retroactive to January 1, 1918. In the order appointing this Commission, dated January 18, 1918, it was stated that:

The Commission shall make a general investigation of the compensation of persons in the railroad service, the relation of railroad wages to wages in other industries, the conditions respecting wages in different parts of the country, the special emergency respecting wages which exists at this time owing to war conditions and the high cost of living, as well as the relation between different classes of railroad labor.

This Commission made its report on May 10, 1918. It is an exceedingly interesting and valuable document. In it the Commission pointed out the difficulties of its task and the impossibility, under the abnormal conditions obtaining, of devising a system that would represent a permanent adjustment of the intricate problem of railway-labor pay. It confined its attention therefore to recommending the action that should be taken at once to meet actual conditions. It found that, notwithstanding the fact that the railroads had during 1916 and 1917 increased the wages of their employees by an amount exceeding in the aggregate \$350,000,000 a year, still further increases should be made if the increased cost of living that had taken place since 1916 was to be met. The increases that had been made, moreover, had been extremely uneven as regards the different classes of railway labor. The Commission thus stated that "these ad-

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vances were not in any way uniform, either as to employment or as to amounts or as to roads, so that one class of labor benefited much more than another on the same road, and as between roads there was the greatest divergence." The situation had been dealt with as pressure made necessary, and naturally those who, by organization or through force of competition, could exert most pressure fared best. Especially did the Commission find that in these increases the higher paid classes of workers had fared best and the lower paid the worst. "There stands out," the Commission said, "one dominating fact, recognized by railroad workers as well as by railroad officials — a conclusion compelled by that large sense of equity which governs when logical processes fail — that the lower grades of railroad employment, those in which the supply of labor has been less restricted, and where organization has been difficult, if not impossible, deserve increases out of proportion to the increases for those in the superior grades."

Because of this condition the Commission rejected the policy pursued by England, in meeting a similar situation, of recommending a flat or uniform increase of all wages. Instead it embodied its recommendations for wage increases in the form of a schedule calling for descending percentages of increase in wages as they existed in December, 1915, according as their amounts rose, these percentages running from 4.56 per cent. for wages from \$238.01 to \$239.00 to 43 per cent. for wages from \$46.01 to \$47.00 per month. The changes thus recommended would not, of course, remove the inequalities in wages that existed between different classes of labor and different roads. They constituted, however, all that it was possible to do without making an investigation that would require months or years to complete. It was esti-

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mated that if the increases were put in effect, an addition of \$350,000,000 would be made to the total annual payroll of the roads.

These recommendations with certain modifications were adopted by the Railroad Administration and put into effect by an order issued on May 25, 1918. The most marked deviation from the recommendations of the Commission was in respect to the establishment of a basic eight-hour day. This did not actually reduce the hours of employment then in effect, but did establish the basic eight-hour day upon which further adjustments of wages should be based. The order further provided for the creation of a Board of Railway Wages and Working Conditions with the duty of investigating "matters presented by railway employees or their representatives affecting: (1) inequalities as to wages and working conditions, whether as to individual employees or classes of employees; (2) conditions arising from competition with employees in other industries; (3) rules and working conditions for the several classes of employees, either for the country as a whole or for different parts of the country," and such other matters affecting wages and working conditions as might be referred to it by the Director-General.

In the meantime the Director-General, by an order issued March 27, 1918, created a body known as the Railway Board of Adjustment No. 1, to have as its duties the adjustment of all disputes that might arise in connection with the actual establishment of the basic eight-hour working day, the application of the increases in wages that might be made as the outcome of the recommendation of the Railroad Wage Commission, and generally investigation and adjustment of differences between the railroads and their employees regarding wages and con-

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ditions of employment. This Board was established in pursuance of an agreement entered into by the Director-General with representatives of the railroad Brotherhoods. The Board, it was provided, should be composed of eight members, four to be selected by the regional directors and compensated by the roads, and one each to be selected by the chief executive officers of the four Brotherhoods to be compensated by these organizations. Charles P. Neill, former United States Commissioner of Labor, was made Chairman of this Board.

By an order issued on May 31, 1918, a similar board known as Railway Board of Adjustment No. 2 was created to perform a similar service in respect to classes of labor covered by an agreement entered into by the Railroad Administration with the representatives of the International Association of Machinists, International Brotherhood of Boilermakers, Iron Ship Builders and Helpers of America, International Brotherhood of Blacksmiths and Helpers, Brotherhood of Railway Carmen of America, Amalgamated Sheet Metal Workers' International Alliance, and International Brotherhood of Electrical Workers. E. F. Potter was made Chairman of this Board.

For the administration of all matters arising out of the work of the several boards and commissions that have been mentioned, as well as all other problems of labor, the Railroad Administration created a special Division of Labor with a Director in charge. The action taken, as has been pointed out, has resulted in the increase of the wages bill of the railroads by several hundreds of millions of dollars annually. It was largely to compensate for this increased cost of operation that the increases in railroad rates on both passenger and freight traffic that have been mentioned were made. In the final

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analysis, therefore, it is the shippers and the travelling public that have had to meet the increases in wages granted.

It is impossible at this date to measure the results that have been achieved by the Railroad Administration in the accomplishment of the ends for which it was created. In considering this matter it is necessary to distinguish clearly between the results obtained, or to be expected, from the standpoint of the prosecution of the war and from that of giving to the country an improved system of internal transportation. In respect to the first, there can be no question but that the policy of the Government in taking over the internal transportation agencies of the country has been fully justified. In respect to the second, there can also be no doubt that conditions have in many respects been greatly improved. Important economies have been realized in the consolidation of ticket offices in the larger cities; the elimination of passenger- and freight-soliciting agents; the reduction of advertising expenses; the discontinuance of insurance through private companies; the reduction of unnecessary trains; the common use of terminal facilities, cars, and other facilities; the standardization of locomotives and equipment; the routing of freight so that commodities may be forwarded by the shortest route or those best situated to handle the business; the reduction of salaries; and in scores of other ways too numerous to mention. Immense service has also been rendered in directing capital expenditures. Instead of each road considering its own interests alone, the interests of the country as a whole have been given first place. The Revolving Fund has enabled the Government to make advances for the improvements most urgently needed.



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Against these advantages there are, of course, certain disadvantages which are not so easy to enumerate. Among these special mention should be made of two. Notwithstanding the great increase in rates, the roads under Government operation have far from earned the money necessary to pay the compensation due them under the terms of the agreements entered into between them and the Government. The deficit at the end of 1918 amounted to \$202,135,602, and each month since then has seen this sum greatly increased. This deficit has to be met out of the general funds of the Treasury raised by general taxation. Closely allied with this is the fact that money has not been available for the undertaking of betterments, extensions, and other capital expenditures urgently required. On January 24, 1919, Walker D. Hines, who on January 10, 1919, succeeded Secretary McAdoo as Director-General of Railroads, announced in a letter to the Secretary of the Treasury, which the latter transmitted to Congress, that an additional appropriation of \$750,000,000 would have to be made to the Revolving Fund of the Railroad Administration to enable it to meet its obligations to the owners of the roads and to provide the funds required for the making of needed capital expenditures. Of this sum no less than \$381,806,904 was required to settle the accounts for 1918. Provision was made in one of the appropriation bills that failed of enactment during the closing days of the last session of the Sixty-fifth Congress for the appropriation of this sum of \$750,000,000. The failure of the appropriation much embarrassed the Railroad Administration, but through aid granted by the War Finance Corporation and other devices the Administration has managed to tide over the situation temporarily. There is every reason to believe that the appro-



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priation will be promptly made by the new Congress assembled in the special session called by the President on May 19, 1919.

In the meantime the Senate Committee on Interstate Commerce has been holding extensive hearings on the whole subject of the policy to be pursued by the Government in respect to the retention or surrender of the roads to their owners. At these hearings a large number of plans have been brought forward for consideration. In his message to Congress upon its assembling in extraordinary session on May 19, 1919, the President stated that it was his intention to return the railroads to their owners on January 1, 1920. This, of course, is dependent upon Congress' not reaching a contrary conclusion before that date. It is impossible at this time to determine what will be the outcome. Opinion, however, is almost unanimous that the system must never be allowed to revert to the old condition of a number of uncoördinated agencies, each looking after its own interests rather than those of the general public.

Largely because of the fact that the telegraph, telephone, and cable business of the country was already largely centralized in the hands of a few companies, the question of the assumption of control by the Government over wire communication systems did not come up until some time after possession had been taken by the railroads. In June, 1918, however, the Government reached the decision that it should have the power to take over this industry. In response to the desire of the Administration, Congress, by joint resolution approved July 16, 1918, granted to the President the authority to take this action. The important part of the resolution reads as follows:

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That the President, during the continuance of the present war, is authorized and empowered, whenever he shall deem it necessary for the national security or defense, to supervise or take possession and assume control of any telegraph, telephone, marine cable or radio system or systems, or any part thereof, and to operate the same in such manner as may be needful or desirable for the duration of the war, which supervision, possession, control, or operation shall not extend beyond the date of the proclamation by the President of the exchange of ratifications of the treaty of peace: *Provided*, That just compensation shall be made for such supervision, possession, control, or operation, to be determined by the President; and if the amount thereof, so determined by the President is unsatisfactory to the person entitled to receive the same, such person shall be paid 75 per centum of the amount so determined by the President and shall be entitled to sue the United States to recover such further sum as added to said 75 per centum will make up such amount as will be just compensation therefore in the manner provided for by Section 24, Paragraph 20 and Section 145 of the Judicial Code.

There was at that time considerable difference of opinion both inside and outside Congress regarding the necessity for this grant of authority. The President, the Postmaster-General, the Secretary of War, and the Secretary of the Navy, however, all wrote strong letters to the author of the resolution recommending that the power be granted.

On July 22, 1918, the President issued a proclamation directing the taking over by the Government of all of the telegraph and telephone systems of the country and vesting their administration in the Postmaster-General, this action to take effect on August 1, 1918.

It will be noted that the joint resolution laid down no basis for the fixing of the compensation to be paid to the companies but merely provided that due compensation should be paid as fixed by the President or by the Court

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of Claims in case the decision reached by the President were not accepted. The Postmaster-General, acting for the President, immediately entered upon the work of determining in conference with the officials of the companies the nature of the agreement as regards compensation that should be made with them. In this success was achieved in respect to the American Telephone and Telegraph Company, the Western Union Telegraph Company, and many other companies. In respect to this agreement the President of the first named Company, Theodore N. Vail, in a statement issued by him to the stockholders of his Company, stated that the terms agreed upon were in his opinion wholly satisfactory. He said:

The representatives of the Bell system throughout the negotiations found nothing but helpfulness, asking no more than they thought ought to be paid by the Government, they found an intent and desire to pay all that ought to be paid, and for the protection of the property, to do all that ought to be done and all that has been done in the past. In taking over the property, the Postmaster-General also desires to give continuity to the service, and as far as consistent with Government operation to the personnel which has brought this property to its present degree of efficiency. From the first exchange of views until the close, the Bell representatives were met by the Postmaster-General and his representatives in a spirit of absolute fairness and with an earnest desire to preserve the service to the public, and preserve the property for the proprietors as well as to give them established returns on their securities.

A similar success was not achieved in respect to the Postal Telegraph and Cable Company. An acrimonious dispute between it and the Postmaster-General developed and the Company announced that it would appeal to the courts.

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The proclamation of July 22, 1918, provided for the taking over and operating of only telegraph and telephone lines. On November 2, 1918, the President signed another proclamation providing for a similar taking over of all marine cable systems owned or controlled and operated by any company organized and existing under the laws of the United States or any state thereof. The issue of this proclamation excited much adverse comment due to the fact that it appeared after negotiations looking to the cessation of hostilities had been entered into and the end of the war was definitely in sight, and to the apprehension felt by a portion of the population that possession of this system of communication was taken in order that the Government might exercise rigid control or censorship over news regarding the peace conference about to be inaugurated in Paris. The decision of the President to take with him to Europe Mr. Creel, the Chairman of the Committee on Public Information, was given prominence as an evidence of this intent on the part of the President.

In point of fact the President apparently had strong grounds for taking this action. Mr. Vail, in a special report submitted to the Postmaster-General, a copy of which was published in the *Official Bulletin* of December 9, 1918, said:

There is one thing that calls for immediate action. The cable situation is and has been grave. Congestion is now the rule, and accumulation of business is at times serious, and when the activities of the peace conferences are really commenced in Europe, it will be greatly increased.

He then went on to point out how greatly conditions could be improved by bringing all the cable facilities under a united control and management. Involved in the question were also grave matters of an international

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character, because of the fact that cable lines served not only ourselves, but also foreign countries, and that they were to a considerable extent under the control of foreign Governments which did not in all cases give American citizens the same facilities for use as were accorded to their own citizens.

In respect to radio systems, it has already been pointed out in our consideration of the subject of censorship that the President, acting under powers conferred by the Act of August 13, 1912, on the day of the declaration of war, that is, on April 6, 1917, issued an executive order taking over all the radio systems of the country and placing their control and operation in the hands of the Navy Department.

A feature of special interest in this assumption by the Government of the operation of the telegraph, telephone, and cable systems of the country is the fact that such action had long been urged by the present Postmaster-General, as well as by certain of his predecessors in office, as a sound policy irrespective of war conditions. Postmaster-General Burleson, in other words, is a strong advocate of Government ownership and operation of these utilities, and undoubtedly favored the permanent retention of them by the Government as an integral part of its system of postal administration. It is his contention that these systems can be much more efficiently and economically run under Government ownership, chiefly because of the fact that the Government already possesses in its postal administration a service fully prepared to run these systems with relatively slight expansion of its present facilities and general administrative personnel. Thus, in a communication addressed to the Vice-President as presiding officer of



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the Senate, under date of March 4, 1918, relative to the Post Office's taking over the telephone system of the District of Columbia, after pointing out the service maintained by the telegraph and telephone companies that could be eliminated under Government operation, Mr. Burleson said:

Much, indeed nearly all, the above duplicating official telephone personnel represent established functions in the Post Office Department, dischargeable by it with slight additional expense. There is besides the very considerable item of earnings on investment. Public utility commissions proceed on the theory that private enterprises are entitled to claim if they can earn a return of 8 per cent per annum, which is not unreasonable to private enterprise. Government capital, on the other hand, should cost about one-half this amount. Taking the savings from unification of mail and telephone communication systems, along with the immense saving in capital charges, I have the fullest confidence in the statement made to the District Utilities Commission as to the results of postal management of the District telephone system if authority be given it to unite it with the Postal Service.

The Postmaster-General appointed a number of committees to consider and report upon steps to be taken to make the system more economical and efficient. Mr. Vail, although long an opponent of the system of Government ownership and operation, has nevertheless accepted the request of the Postmaster-General to act as his advisor in respect to the administration of the new system. As regards certain fundamental aims Mr. Vail has always been in complete accord with the present position of the Government. Reference is made to the desirability of bringing into one system all of the telephone companies of the country to the end that a single unified system for the service of the country might be provided, and to the further desirability of effecting a



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close union of the telephone and telegraph and cable systems. There are abundant evidences that the Post Office Department is taking all the steps in its power to achieve these ends. This is brought out by the report on a uniform telephone, telegraph, and cable system submitted by Mr. Vail to the Postmaster-General, a copy of which was published in the *Official Bulletin* of December 9, 1918. There is thus every reason to believe that even should the decision be reached that these systems should be returned to their original owners, they will constitute a unified and integrated system of land and cable communication to a far greater extent than was the case when the system was taken over.

The operation of the telegraph, telephone, and cable system by the Government has, from the start, excited widespread criticism. The complaint has been general that the service has been inferior to what it was when the systems were under private management. Much of this criticism is allied to that which has been made of the administration of the postal system, and has taken the form of the indictment of Postmaster-General Burleson for personal incapacity in administering the systems under his direction. In no small degree this antagonism on the part of the public is due to the feeling that no satisfactory explanation has ever been made for the taking over of the telegraph, telephone, and cable systems as a war measure. The feeling on the part of the press against Mr. Burleson personally on account of his advocacy of the zone system for second-class mail rates has undoubtedly been responsible for the press' making the most of any charges brought forward against the services under his direction. Regarding the justice of all these complaints it is impossible

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at this time to decide. There can hardly be any question, however, that the volume of this criticism led to the issue by the President of an order during the latter part of April, 1919, that the cable systems be returned to their owners, and the Post-Office Department relinquished control at midnight on May 2, 1919. In his message to Congress of May 20, 1919, the President declared that the telephone and telegraph lines should be returned to their owners at the earliest practicable date. In making this recommendation, however, he made a strong appeal that Congress, by appropriate legislation, provide for the unification of these two systems. He said:

Neither the telegraph nor the telephone service of the country can be said to be in any sense a national system. There are many confusions and inconsistencies of rates. The scientific means by which communication by such instrumentalities could be rendered more thorough and satisfactory has not been made full use of. An exhaustive study of the whole question of electrical communication and of the means by which the central authority of the nation can be used to unify and improve it, if undertaken, by the appropriate committees of Congress, would certainly result, indirectly, even if not directly, in a great public benefit.

## CHAPTER IX

### THE MOBILIZATION OF LABOR: I, DETERMINATION OF LABOR CONDITIONS

Conditions of the problem arising from the shortage of labor—  
Its relation to the mobilization of industry—Determination  
of labor conditions—Existing agencies for the adjustment  
of industrial disputes—United States Board of Mediation  
and Conciliation—Division of Conciliation of the Department  
of Labor—Their services and limitations—Committee on  
Labor of the Council of National Defense—Its fundamental  
principles of industrial peace—Its organization and services  
—Dangerous activities of radical industrial unionism in the  
West—The President's Mediation Commission—Its analysis  
of the causes of industrial unrest—The Arsenal and Navy  
Yards Wage Commission—Board of Control for Labor  
Standards in Army Clothing—Labor adjustment agencies of  
the Shipping Board and the Fuel and Railroad Adminis-  
trations.

Scarcely second in importance for the successful prosecution of the war to the mobilization of industry was the mobilization of labor. The conditions of the problem here presented were in many respects analogous to those involved in the mobilization of industry. In the first place, there was a serious shortage of the labor required for the performance of the work urgently needed to be done. This arose not merely from an increased demand, but from the fact that coincidently with this increased demand the United States was deprived of millions of laborers through the drafting of men into the Army and Navy and the stoppage of the annual inflow of the half-million or more workers which we had been receiving in recent years through immigration. In the second place, such labor as remained was to a considerable extent not of a character to meet the new

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requirements. The enormous expansion of the ship-building, ordnance, airplane, motor-truck, and other industries called for forces of technically trained workers in these fields far exceeding the supply.

These two basic conditions led to consequences wholly altering the problems involved in the employment of labor and in determining the conditions under which work should be performed. With a demand far exceeding supply and a consequent keen competition on the part of employers to secure such labor as was available, there was almost no limit to which wages might not be pushed unless some measure of regulation or control was devised. A certain increase in wages to compensate for increased cost of living was, of course, entirely proper and desirable. Under unregulated competition, however, wages would certainly go far beyond this. Such competition also meant an enormous turnover of labor, that is, changes of employment due to labor leaving one employer or job for another as more advantageous conditions were offered. More than this, unless direction and control were exercised in some way, there was no certainty that labor would go where it was most urgently needed for war purposes.

Finally, it was imperative that special efforts should be made to prevent interruptions of work through strikes or lockouts resulting from disagreements between employers and employees. Serious at any time, such stoppages in war time might easily be disastrous to the Nation in carrying out its war programme. Preventive action in this direction was especially necessary, since there was no question that labor was restive; that in the agitation conducted by the Industrial Workers of the World, or I. W. W., as it is more usually designated, industrial peace was seriously threatened; that in-

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fluences of a pro-German character were undoubtedly at work to foster discontent and labor disturbances wherever possible; that labor saw, or thought it saw, enormous profits being made by capital in which it believed that it should share; and, finally, that there was a strong tendency on the part of labor to see in existing conditions a unique opportunity to gain many advantages for which it had long been struggling.

It will thus be seen that there was scarcely a question arising in connection with the mobilization of the industrial resources of the country, whether of supply, profiteering, or priority, that did not have its counterpart in the problems of organizing labor for the war. It is our purpose in the pages that follow to set forth the action taken by the National Government in seeking to meet these problems. In doing so it is desirable to distinguish between the two phases of the problem — that of the determination of labor conditions, and that of the recruitment and direction of labor.

The phrase "determination of labor conditions" has been chosen as descriptive of the first phase instead of the more usual expression, "adjustment of labor disputes," since, as the war progressed, it became increasingly apparent that the real task confronting the Government was that of determining and enforcing standard basic conditions of labor rather than that of leaving the determination of such conditions in the first instance to the process of bargaining between employers and employees and later stepping in to adjust differences when an agreement between the parties could not be reached. As a result of the recognition of this fact numerous bodies were created by the National Government having for their purpose the determination of labor

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conditions as well as the adjustment of disputes that might arise notwithstanding all efforts to prevent them.

To understand the part played by these agencies some account should first be given of two governmental agencies having for their function the prevention or settlement of industrial disputes which were already in existence when the war broke out. These were the United States Board of Mediation and Conciliation and the Division of Conciliation, or "Mediation Service," as it is sometimes designated, of the Department of Labor.

The first of these, the United States Board of Mediation and Conciliation, was created by an Act of Congress, known as the Newlands Act, approved July 15, 1913, the full title of which is "An Act Providing for mediation, conciliation and arbitration in controversies between certain employers and their employees." Notwithstanding this general title, the Board created by this Act exercises its functions only in respect to labor disputes between common carriers engaged in interstate commerce and their employees. In respect to these its powers are only those of a mediator or conciliator. It has no power to make a binding award. Whenever a controversy arises between such carriers and their employees regarding conditions of employment interrupting or threatening to interrupt the operation of trains to the serious injury of the public interest, it is the duty of this Board to proffer its services to the parties, or upon the request of either party to intervene, in the effort to bring the parties to an agreement. If it fails to secure an adjustment of the controversy in this way, the Board then makes an effort to induce the parties to submit their controversy to arbitration, and if successful in this, it makes the necessary arrangements for such arbitration.

The enactment of this law had been preceded by two



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other Acts, one approved on October 1, 1888, "To create boards of arbitration or commissions for settling controversies and differences between railroad corporations and other common carriers engaged in interstate or territorial transportation of property or persons and their employees," which was repealed by an Act approved June 1, 1898, entitled, "An Act Concerning carriers engaged in interstate commerce and their employees." This Act was in turn repealed by the Act of July 15, 1913.

The immediate cause of the passage of the Newlands Act was the development of an acute controversy between the conductors and trainmen and the 42 railroads in what is known as the Eastern Associated Territory, growing out of a demand of the former for increased wages. This demand was refused by the roads. The situation became exceedingly grave and threatened a complete tie-up of all the roads in the Eastern Territory. To meet the situation the Congress, on the earnest recommendation of President Taft and the united solicitation of both parties to the dispute, passed the Act. The Board of Mediation and Conciliation was immediately constituted, and after considerable trouble it induced the parties to agree upon terms of arbitration. The board of arbitration which was set up made its award on November 10, 1913, which, in accordance with the terms of the Act, went into effect upon entry of judgment thereon by the District Court of the United States 10 days afterwards.

Since that time the Board has been instrumental in securing the adjustment of a large number of disputes between the railroads engaged in interstate commerce and their employees. In a report of its operations submitted on December 8, 1917, the Board stated that in

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the four years ending June 30, 1917, its services have been availed of in 71 cases. Of these, 52 were completely settled by mediation; six partly by mediation and partly by arbitration; eight wholly by arbitration; three by the parties themselves; one by Congressional action; and one remained unsettled.

The Board of Mediation and Conciliation had to do, as we have seen, with the adjustment of difficulties between railroads engaged in interstate commerce and their employees. Although Congress has never made any direct provision for the establishment of a service having as its function the settlement of labor controversies generally, such a service was in effect established by the Department of Labor. This it did under the general powers conferred upon the Secretary of Labor by the organic Act of March 4, 1913, providing for the creation of the Department of Labor, Section 3 of which provides, among other things, that "the Secretary of Labor shall have power to act as mediator and to appoint commissioners of conciliation in labor disputes whenever in his judgment the interests of industrial peace may require it to be done." Acting on this authority, the Secretary of Labor established in his office proper, that is, directly under his control, a service for the adjustment of industrial disputes, to which he gave the name, Division of Conciliation, or at times, "Mediation Service." The existence of this Service has been recognized by Congress through the grant of appropriations for its support. The appropriation for the first two years combined, 1913 and 1914, was \$25,000; that for 1915, \$50,000; that for 1916, \$75,000; and that for 1918, \$175,000.

The Mediation Service, it need scarcely be said, has no power to issue mandatory orders. Disputants indeed are not even required to accept its good offices. All

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that the service can do is to seek to bring the parties in dispute together. Regarding the policy and method of operation of the Division of Conciliation, the Secretary of Labor said in his annual report for 1917:

It has been the policy of the Department of Labor not to endeavor to impress its viewpoint upon either the worker or the management in any dispute that may arise, but rather to find some basis mutually acceptable even though it may not be mutually satisfactory. In other words, the work of mediation is not a judicial work; it is not a judicial function; it is not to hear both sides and then determine the rights and wrongs of the situation or to pass judgment and then enforce its decision. The work is diplomatic rather than judicial and it is in that spirit the problems of conciliation in labor controversies are approached.

This does not mean that the Department has not very definite opinions regarding the fundamental principles that ought to obtain in making labor content and that the Department in carrying out its policy of unbiased conciliation does not seek to have these principles recognized. Thus, the Secretary of Labor in his annual reports is outspoken in the statement of his belief in the necessity for the organization of labor and collective bargaining if proper conditions of labor bargaining are to obtain. It may then be said that the National Government, speaking through the Department of Labor, has these two principles as its national labor policy, and that its Mediation Service, acting though it does in a purely mediatory and conciliatory way, is one of the agencies through which it seeks to have this policy prevail.

Notwithstanding its lack of direct authority, the Mediation Service has been markedly successful in securing the settlement of a large number of labor disputes, and its existence proved to be of great value in the adjustment of the increased number of labor difficulties

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growing out of the abnormal conditions resulting from the war. Of its work following the outbreak of the war the Secretary of Labor in his annual report for 1917 had the following to say:

The number of labor disputes calling for Government mediation increased suddenly and enormously with the beginning of the war. A majority of the employers and employees involved in industrial controversies evinced a keen desire to secure the good offices of the Department of Labor through its conciliation and to take advantage of the machinery created under that section of the organic law of the Department, the purpose of which in this field of its activities has been the fostering of industrial peace on a basis of industrial justice. During the four years the Division of Conciliation has been in existence the foundation has been laid to aid materially in the quiet adjustment of such disputes. It has been demonstrated that the intervention of an impartial third party in the person of a conciliator approved by the Department invariably expedited the settlement of a dispute which had culminated in a strike or lockout. In a large number of instances the conciliators have been able not only to bring about an agreement in cases of existing differences—often arising from misunderstandings—but to avert the threatened strike altogether. . . . It is often the case that employers refuse to deal with committees representing their own employees; but even in these instances there never is a refusal to meet and discuss the merits of the dispute with the conciliators of the Department. The opportunity thus afforded each side to learn the real position taken by the other soon bears fruit. . . .

Since war was declared, on April 6, 1917, and up to October 25, 1917, the Department of Labor had assigned commissioners of conciliation in 521 new cases made up of 281 strikes, 212 disputes that threatened a suspension of work and 28 lockouts. It has been successful in satisfactorily adjusting 322 of these; has been unable to adjust 43; has at the present moment 105 cases pending, a comparatively small number of which have reached the strike stage; and in 51 cases its commissioners found on their arrival that the matters in dispute had been

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settled or that the plant was in operation and the former employees had secured work elsewhere. The number of employees directly affected in the labor disputes settled by the Department's conciliators or pending and in process of adjustment since the declaration of war—April 6 to October 25, 1917—total 572,029, while approximately 380,954 were affected indirectly.

Valuable as was the work of these two permanent services of the National Government, they utterly failed to meet the needs of the situation brought about by the war, and numerous other agencies have had to be established to handle labor problems. Among these first mention should logically be made of the Committee on Labor of the Advisory Commission of the Council of National Defense.

The importance of labor as one of the dominant factors in the prosecution of the war was recognized by the selection of Samuel Gompers, President of the American Federation of Labor, as one of the six members of the Advisory Commission of the Council. In the apportionment of work among the members of the Commission the field of labor naturally fell to him. Mr. Gompers proved to be an exceptionally energetic and able executive, and he immediately grasped the fundamental features of the problems that had to be met if labor was to do its full share in the successful prosecution of the war. These features, briefly epitomized, were: (1) That labor, and especially organized labor, should let it be known in no uncertain tones that it was solidly back of the Government in the prosecution of the war; (2) that both labor and capital should, in effect, declare the war period to be one of truce between them, in the sense that no undue advantage would be taken of the abnormal conditions produced by the

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war to push their respective claims; (3) that labor should interpose no obstacles in the way of the dilution of skilled labor and should refrain from all demands the purpose or effect of which might limit output; (4) that capital on its side should refrain from discriminating against union labor or seeking to discourage its employees from becoming union men and should see that the pressure of work should not be made a reason for reducing labor standards or engaging in practices detrimental to the health or welfare of workers; (5) that every effort should be made by both labor and capital to prevent interruptions to work through strikes and lockouts, and to this end that both should agree to the reference of all disputes to properly constituted mediation or arbitration tribunals and abide by their decisions; and (6) that if labor was to refrain from taking advantage of the demand for its services to push wages to an excessive height, the Government should take steps that should insure that profiteering on the part of capital did not prevail.

There can be no question that the country owes a great debt of gratitude to Mr. Gompers and the leaders of both labor and industry for the loyal way in which they sought to make these principles prevail and the large measure of success that was achieved. It is true that many instances can be cited in which excessive wages were paid and excessive profits secured. Nor can the claim be made that in no case was advantage taken of the situation by one or the other side to improve its strategic position in reference to the other. On the whole, however, the fundamental end, that of the maintenance of industrial peace during the period of the war, was attained.

This statement of the general problem of securing in-



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dustrial peace during the war has been necessary in order to give an idea of the nature of the services rendered by Mr. Gompers' Committee. As will be shown hereafter, as the war progressed, one agency after another had to be created by the Government for the handling of labor matters, and as they got into working order, the work of the Committee on Labor of the Council of National Defense became, relatively at least, less important. At the outset, however, the whole work of determining fundamental policies and of taking action to secure their adoption fell upon this body.

The Committee was formally constituted on February 13, 1917. The first step taken by Mr. Gompers was to secure a general agreement on the part of organized labor as to the attitude it would take towards the war and the problems of labor engendered by it. In his capacity as President of the American Federation of Labor he first called a preliminary conference of representatives of organized labor on February 28, and a meeting of the Executive Committee of the Federation on March 9. This was followed by a general conference in Washington on March 9, 1917, of the executive officers of all of the leading labor organizations of the United States. At this meeting, which was a very important gathering attended by more than 150 persons, there was adopted a formal declaration of principles setting forth the attitude of union labor towards the war. In this declaration organized labor pledged its unqualified support of the war and made known its demands. Among them were the demands that the Government should take energetic steps to curb profiteering, and that labor should have adequate representation in all bodies created by the Government for the handling of industrial matters.

This meeting of labor was followed by a general con-

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ference of representatives of labor, employers' organizations, and others prominent in the field of social reform at Washington on April 2, 1917, called by Mr. Gompers as Chairman of the Committee on Labor of the Council of National Defense. The persons invited to participate in this conference, numbering from 180 to 200 persons, effected a permanent organization as the full Committee on Labor of the Council of National Defense. It thereupon organized itself into numerous subcommittees to deal with specific phases of the labor problem and provided for the creation of an Executive Committee of 11 members which should act for the whole Committee. This Executive Committee on April 6, 1917, adopted a formal resolution, the most important provision of which was a recommendation that the Council of National Defense should issue a statement to employers and employees in all industrial establishments and transportation systems, advising that "neither employers nor employees shall endeavor to take advantage of the country's necessities to change existing standards." This was subsequently amplified by the statement that

it [the Council of National Defense] recognizes that the standard of living is indefinite and difficult to determine, because it is in a measure dependent upon the purchasing power of wages. It believes, however, that no arbitrary change in wages should be sought at this time by either employers or employees through the process of strikes or lockouts without at least giving the established agencies, including those of the several states and of the Government and of the Mediation Board in the transportation service and the Division of Conciliation of the Department of Labor in the other industries, an opportunity to adjust the difficulties without a stoppage of work occurring.

This securing of a general agreement on the part of

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labor loyally to support the war and of labor and capital jointly to coöperate and refrain from acts of aggression that might lead to a cessation of work constitutes the great work of this Committee. Of the work done by its several subcommittees, much of which was of great value, it is impossible here to speak.<sup>1</sup> More and more, however, as the war progressed, interest tended to center on other agencies having specific duties in respect to the adjustment of labor conditions. It is to these agencies that attention will now be directed.

The Division of Conciliation of the Department of Labor was an organization adapted only for the consideration and, if possible, the adjustment of particular issues arising in individual labor disputes. It was not, however, of a character, nor did it have a personnel, fitting it for the prosecution of any general inquiry into the causes of industrial discontent or the formulation of broad policies calculated to remove such conditions. For some years prior to the outbreak of the war there had developed on the part of certain classes of labor outside of the ranks of organized trade unionism a tendency to advocate the use of violence or "direct action" in the promotion of their aims. This tendency found expression in the creation of the organization known as the Industrial Workers of the World, or the I. W. W., as it is more popularly known. This organization not only provided a rallying center for labor radicals of all sorts, but was undoubtedly utilized by enemies of the Allies to embarrass the United States in its war efforts. The organization was particularly strong in the mountain regions and on the Pacific Coast.

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<sup>1</sup> Full treatment of this subject and of the labor problem as a whole will be presented in this series in W. Jett Lauck, *Labor in War Time and After*.

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The existence of this organization and its activities gave rise to a very serious state of affairs. The President and his advisors very wisely held that a proper meeting of the situation involved rather an attempt to determine the conditions giving rise to the activities of such an organization and to correct these conditions, than the application of forcible measures of repression. In the execution of this policy the President, acting upon a recommendation of the Council of National Defense made at the suggestion of Mr. Gompers, created on September 19, 1917, a commission of five members to make a thorough investigation of the causes of industrial discontent in the mountain regions and on the Pacific Coast, and incidentally to do what it could to secure a settlement of outstanding differences. This commission, to which was given the name of the President's Mediation Commission, was constituted as follows: William B. Wilson, Secretary of Labor, Chairman; Colonel J. L. Spangler of Pennsylvania, Verner Z. Reed of Colorado, John H. Walker of Illinois, and G. P. March of Washington, members, and Felix Frankfurter, Secretary. In announcing the appointment of this Commission the President said:

It will be the duty of the commission to visit, in each instance, the governor of the State, advising him that they are there as the personal representatives of the President with a view to lending sympathetic counsel and aid to the State Government in the development of a better understanding between laborers and employers, and also themselves to deal with employers and employees in a conciliatory spirit, seek to compose differences and allay misunderstanding, and in any way that may be open to them to show the active interest of the National Government in furthering arrangements just to both sides. Wherever it is deemed advisable conferences of employers and employees should be called with the purpose of working out a

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mutual understanding between them which will insure the continued operation of the industry on conditions acceptable to both sides. The commission should also endeavor to learn the real causes for any discontent which may exist on either side, not by the formal process of public hearings but by getting into touch with workmen and employers by the more informal process of personal conversation.

This Commission proved to be an exceptionally able body. Not only did it settle one important dispute after another that threatened to disrupt industry in the mountain regions and on the Pacific Coast, but it submitted on January 9, 1918, a final report which is one of the most important documents bearing upon the problem of labor that this country has produced. After giving an account of the several industrial disputes investigated and settled by the Commission, it concluded with the following analysis of the causes of industrial discontent and recommendations as to how these causes might best be remedied:

Among the causes of unrest, familiar to students of industry, the following stand out with special significance to the industrial needs of war:

(a) Broadly speaking, American industry lacks a healthy basis of relationship between management and men. At bottom this is due to the insistence by employers upon individual dealings with their men. Direct dealings with employees' organizations is still the minority rule in the United States. In the majority of instances there is no joint dealing, and in too many instances employers are in active opposition to labor organizations. This failure to equalize the parties in adjustments of inevitable industrial contests is the central cause of our difficulties. There is a commendable spirit throughout the country to correct specific evils. The leaders in industry must go further, they must help to correct the state of mind on the part of labor; they must aim for the release of normal feelings by enabling labor to take its place



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as a coöperator in the industrial enterprize. In a word, a conscious attempt must be made to generate a new spirit in industry.

(b) Too many labor disturbances are due to the absence of disinterested processes to which resort may be had for peaceful settlement. Force becomes too ready an outlet. We need continuous administrative machinery by which grievances inevitable in industry may be easily and quickly disposed of and not allowed to reach the pressure of explosion.

(c) There is a widespread lack of knowledge on the part of capital as to labor's feelings and needs and on the part of labor as to problems of management. This is due primarily to a lack of collective negotiation as the normal process of industry. In addition there is but little realization on the part of industry that the so-called "labor problem" demands not only occasional attention but continuous and systematic responsibility, as much so as the technical or financial aspects of industry.

(d) Certain specific grievances, when long uncorrected, not only mean definite hardships; they serve as symbols of the attitude of employers and thus affect the underlying spirit. Hours and wages are, of course, mostly in issue. On the whole, wage increases are asked for mostly in order to meet the increased cost of living, and such demands should be met in the light of their economic causes. Again, the demand for the eight-hour day is nation-wide, for the workers regard it as expressive of an accepted national policy.

Repressive dealing with manifestations of labor unrest is the source of much bitterness, turns radical labor leaders into martyrs and thus increases their following, and, worst of all, in the minds of workers tends to implicate the Government as a partisan in an economic conflict. The problem is a delicate and difficult one. There is no doubt, however, that the Bisbee and Jerome deportations, the Everett incident, the Little hanging, and similar acts of violence against workers have had a very harmful effect upon labor both in the United States and in some of the allied countries. Such incidents are attempts to deal with symptoms rather than causes. The I. W. W. has exercised its strongest hold in those industries and communities where employers have most resisted the



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trade-union movement and where some form of protest against unjust treatment was inevitable.

The derangement of our labor supply is one of the great evils in industry. The shockingly large amount of labor turnover and the phenomenon of migratory labor means an enormous economic waste and involves an even greater social cost. These are evils which flow from grievances such as those we have set forth; they are accentuated by uncontrolled instability of employment. Finally, we have failed in the full use and wise direction of our labor supply, falsely called "labor shortage," because we have failed to establish a vigorous and competent system of labor distribution. However, means and added resources have been recently provided for a better grappling with this problem.

It is then, to uncorrected specific evils and the absence of a healthy spirit between capital and labor, due partly to these evils and partly to an unsound industrial structure, that we must attribute industrial difficulties which we have experienced during the war. Sinister influences and extremist doctrine may have availed themselves of these conditions; they certainly have not created them.

In fact, the overwhelming mass of the laboring population is in no sense disloyal. Before the war labor was, of course, filled with pacific hopes shared by nearly the entire country. But, like other portions of the citizenship, labor has adjusted itself to the new facts revealed by the European war. Its suffering and its faith are the suffering and the faith of the Nation. With the exception of the sacrifices of the men in the armed service the greatest sacrifices have come from those at the lower rung of the industrial ladder. Wage increases respond last to the needs of this class of labor, and their meager returns are hardly adequate, in view of the increased cost of living, to maintain even their meager standard of life. It is upon them the war pressure has borne most severely. Labor at heart is as devoted to the purposes of the Government in the prosecution of this war as any other part of society. If labor's enthusiasm is less vocal, and its feelings here and there tepid, we will find the explanation in some of the conditions of the industrial environment in which labor is placed and which in many instances is its nearest contact with the activities of the war.

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(a) Too often there is a glaring inconsistency between our democratic purposes in this war abroad and the autocratic conduct of some of those guiding industry at home. This inconsistency is emphasized by such episodes as the Bisbee deportations.

(b) Personal bitterness and more intense industrial strife inevitably result when the claim of loyalty is falsely resorted to by employers and their sympathizers as a means of defeating sincere claims for social justice, even though such claims be asserted in time of war.

(c) So long as profiteering is not comprehensively prevented to the full extent that governmental action can prevent it, just so long will a sense of inequality disturb the fullest devotion of labor's contribution to the war.

### RECOMMENDATIONS

The causes of unrest suggest their own means of correction:

1. The elimination to the utmost practical extent of all profiteering during the period of the war is a prerequisite to the best morale in industry.

2. Modern large-scale industry has effectually destroyed the personal relation between employer and employee—the knowledge and coöperation that come from personal contact. It is therefore no longer possible to conduct industry by dealing with employees as individuals. Some form of collective relationship between management and men is indispensable. The recognition of this principle by the Government should form an accepted part of the labor policy of the Nation.

3. Law, in business as elsewhere, depends for its vitality upon steady enforcement. Instead of waiting for adjustment after grievances come to the surface there is needed the establishment of continuous administrative machinery for the orderly disposition of industrial issues and the avoidance of an atmosphere of contention and the waste of disturbances.

4. The eight-hour day is an established policy of the country; experience has proved justification of the principle also in war times. Provision must of course be made for longer hours in case of emergencies. Labor will readily meet this requirement if its misuse is guarded against by appropriate overtime payments.

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5. Unified direction of the labor administration of the United States for the period of the war should be established. At present there is an unrelated number of separate committees, boards, agencies, and departments having fragmentary and conflicting jurisdiction over the labor problems raised by the war. A single-headed administration is needed, with full power to determine and establish the necessary administrative structure. [Since this report was written the direction of the labor administration for the war was delegated to the Secretary of Labor.]

6. When assured of sound labor conditions and effective means for the just redress of grievances that may arise, labor in its turn should surrender all practices which tend to restrict maximum efficiency.

7. Uncorrected evils are the greatest provocative to extremist propaganda, and their correction in itself would be the best counter propaganda. But there is need for more affirmative education. There has been too little publicity of an educative sort in regard to labor's relation to the war. The purposes of the Government and the methods by which it is pursuing them should be brought home to the fuller understanding of labor. Labor has most at stake in this war, and it will eagerly devote its all if only it be treated with confidence and understanding, subject neither to indulgence nor neglect, but dealt with as a part of the citizenship of the State.

We have quoted this part of the Commission's report at length, since nowhere else, it is believed, can there be found in so brief a compass such an acute analysis of the causes of industrial discontent and the steps that should be taken to remove it. Furthermore, the principles of action here laid down constitute the ones which the National Government, acting through its other agencies, has consistently sought to put into execution.

The arsenals of the War Department and the navy yards of the Navy Department were direct competitors for many classes of labor. It was manifestly both in-

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equitable and detrimental to efficiency that these two classes of institutions should pay different rates of wages for the same labor or in other respects provide for divergent labor conditions. To secure unity of action between the two Departments in respect to such matters, the Secretaries of War and of the Navy, acting in cooperation with the Secretary of Labor, in August, 1917, created a body known as the Arsenal and Navy Yards Wage Commission. This Commission, composed of Franklin D. Roosevelt, Assistant Secretary of the Navy, Stanley King, Assistant to the Secretary of War, and Rowland B. Mahaney, mediator of the Department of Labor, had as its function to pass upon all wage questions arising in arsenals and navy yards. On September 17, 1917, announcement was made in the *Official Bulletin* that the Commission had completed its work of revising the scale of wages paid in arsenals and navy yards. In making this revision the Commission, although paying attention to wages paid in other local establishments, sought to standardize wages as far as possible.

Among the agencies created by the War Department for the handling of labor matters, special mention should be made of the Board of Control for Labor Standards in Army Clothing. The clothing industry is, as is well known, one in which the evils of "sweating" are especially severe and difficult to control. Following the placing of the enormous orders for the manufacture of uniforms for the Army, complaints began to pour in upon the Government that this work was being performed to a large extent under sweatshop conditions of the worst sort. To prevent this and to insure that proper working conditions were being observed by all contractors for the Government in this field, the Secre-

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tary of War on August 24, 1917, established a board composed of Louis Kirstein, of Boston, as Chairman, Mrs. Florence Kelley, Secretary of the National Consumers' League, of New York, and Captain Walter G. Kruesi, of the Quartermaster Corps, U. S. R., to prescribe the labor conditions to be observed by all contractors for the supply of Army clothing. In announcing the establishment of this Board, Secretary Baker said:

Through this board the Quartermaster-General will be enabled to enforce the maintenance of sound industrial and sanitary conditions in the manufacture of Army clothing, to inspect factories, to see that proper standards are established on Government work, to pass upon the industrial standards maintained by bidders on Army clothing, and act so that just conditions prevail.

The Government cannot permit its work to be done under sweatshop conditions, and it cannot allow the evils widely complained of to go uncorrected. Only through the establishment of such a body as the board of control now created will the Government be assured that Army clothing is manufactured under recognized industrial standards and in an atmosphere of good will between manufacturers and operatives. This alone will assure fit clothing and its prompt delivery for Army needs.

This Board in discharging its duties did an exceedingly important piece of work. It secured the services of experts and made an intensive study of the cost of labor of each of scores of distinct operations involved in the manufacture of clothing. On the basis of this study it fixed the remuneration that should be paid in each case, besides determining the other conditions of labor that should be observed. In a word, it determined the labor standards for the clothing industry. There is no doubt that this work will have an effect after the termination of the war in stabilizing this industry, which more than



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almost any other important industry had need for such stabilization. On January 24, 1918, the Secretary of War was able to announce that the work for which the Board has been created had been so largely completed that it was unnecessary longer to continue it. The Board was accordingly abolished, and the enforcement of the standards prescribed by it was turned over to a division of the Quartermaster-General's Office. Mr. Kirstein, after continuing for a time as administrator of labor standards for Army clothing, resigned, and in April, 1918, his place was filled by the appointment of Professor W. Z. Ripley of Harvard. This work was then constituted a branch of the Industrial Relations Division of the Quartermaster-General's Office.

In addition to the foregoing agencies created by the National Government for the determination of labor conditions and the settlement of industrial disputes, each of the three great war agencies whose activities involved the handling or control of large bodies of labor — the United States Shipping Board, the Fuel Administration, and the Railroad Administration — had to create special bodies for the performance of similar functions in the fields covered by them. A description of the organization and work of these bodies is given in our account of the agencies of which they formed a part. They are mentioned here only in order that our survey of war agencies for dealing with the problems of labor may be complete.



## CHAPTER X

### THE MOBILIZATION OF LABOR; II, WAR LABOR ADMINISTRATION

Conditions demanding a centralized administration for the direction of war labor—The Secretary of Labor appointed Labor Administrator—His Advisory Council—The War Labor Conference Board—Its programme and recommendations—Creation of the National War Labor Board—Its organization, procedure, and services—Creation of the War Labor Policies Board—Its personnel, functions, and services—The Labor Cabinet—Problems of labor recruitment—The United States Employment Service—Its statutory authority and development—Its coöperative arrangements with the Post Office Department and other agencies—Its organization and operations—Its special war services—The United States Boys' Working Reserve—The United States Public Service Reserve—The Farm Service Division, Division of Stevedores and Marine Workers, and other services—Centralization of labor recruitment and distribution under the Employment Service—Community labor boards—The housing problem—Bureau of Industrial Housing and Transportation in the Department of Labor—The United States Housing Corporation.

Notwithstanding the value of the work performed by the several agencies for the determination of labor conditions and the adjustment of labor difficulties that have been described in the preceding chapter, it became increasingly apparent as the war progressed that these agencies, acting individually and independently, could not meet the conditions of labor employment brought about by the war. In our consideration of the problem of the recruitment of labor it will be seen that the necessity arose for the centralization of the work of securing labor in one agency, in order to prevent an excessive turnover of labor and the evils resulting from one plant's seeking to secure labor from another whose work

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was of equal if not greater importance. Manifestly, if such a system for the direction of labor to employment by a central agency was to work smoothly, a substantial equality in respect to the compensation of labor, hours of work, and other labor conditions ought to obtain in the several plants engaged upon war work. So long as the several branches of administration, the War and Navy Departments, the Shipping Board, the Fuel Administration, etc., each had its board or division for the adjustment of labor disputes and the determination of labor conditions, it was inevitable that wide variations would exist in respect to wages, hours of labor, etc., recommended or ordered by them.

As in the case of recruitment agencies, it became evident that the only solution to this situation lay in the creation of some central agency that should either take over the work of these several agencies or act as a superior authority to determine the fundamental principles that should be followed by them in reaching their determinations. The situation and the remedy required were excellently described by the Secretary of Labor, William B. Wilson, in an article contributed to the *Saturday Evening Post* of June 22, 1918. In this article, entitled "Labor and the War," he said:

Never before in history was it so essential as now for a government at war to have a central labor administration and a consistent labor policy. . . . Last fall it became apparent that in order to prosecute the war efficiently the Government should have a central war labor administration to take care of problems not only of conciliation but of many other matters of concern to both laborers and manufacturers of war materials. Questions of apprenticeship, of dilution of skilled labor, of standards of safety and sanitation, of the employment of women in industries formerly occupied exclusively by men, and of the wages paid to women; problems

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of housing; of recruiting and placing labor — all needed, and still need, adjustment to the present emergency. . . .

Up to a recent time the labor questions most vitally connected with the business of turning out the materials for war have been handled by a number of agencies. The Ordnance Bureau has taken care of its own production program, the Quartermaster-General has looked out for its own interests, the Shipping Board has concerned itself with its own production, and so on. When it came to matters of labor, each section managed its own affairs; each had its own adjustment commission; and as a result there were as many policies or labor problems as there were purchasing agencies. Outside of them all the Department of Labor has tried to survey the whole field and coöperate everywhere. . . . Each bureau was charged with the responsibility of showing results in its own field. It had to fight its own battles, to look out for its own interests everywhere.

There was a strike in a large munitions plant last fall and mediators from four departments of the Government at once stepped in, each with different orders and a different policy for settling the dispute. Only the good sense of the mediators themselves enabled them to get together and bring about a satisfactory settlement.

Moreover these various producing bureaus of the Government, acting independently, began to compete against one another for skilled workmen, increasing the costly and inefficient labor turnover as men kept moving from job to job for higher pay.

This need for unification in labor administration was also clearly pointed out by the President's Mediation Commission in its report submitted to the President under date of January 9, 1918. Among its specific recommendations was one that:

Unified direction of the labor administration of the United States for the period of the war should be established. At present there is an unrelated number of separate committees, boards, agencies and departments having fragmentary and conflicting jurisdiction over the labor problems raised by the

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war. A single-headed administration is needed with full power to determine and establish the necessary administrative structure.

The Council of National Defense likewise pointed out the need for a unification of the labor-controlling agencies of the Government. As the result of a series of conferences relative to labor conditions and problems held by it, the Council early in January, 1917, submitted to the President a programme for the organization of a central labor administration to handle all matters relating to labor in war work.

The essential feature of this programme was the creation of a unified labor administration, with a Labor Administrator at its head, which, as set forth in a statement published in the Council's official bulletin of January 9, 1918, should provide for meeting the following needs:

1. A means of furnishing an adequate and stable supply of labor to war industries. This will include:

- (a) A satisfactory system of labor exchanges.

- (b) A satisfactory method and administration of training of workers.

- (c) An agency for determining priorities of labor demand.

- (d) Agencies for dilution of skilled labor as and when needed.

2. Machinery which will provide for the immediate and equitable adjustment of disputes in accordance with principles to be agreed upon between labor and capital and without stoppage of work. Such machinery would deal with demands concerning wages, hours, shop conditions, etc.

3. Machinery for safeguarding conditions of labor in the production of war essentials. This to include industrial hygiene, safety, women and child labor, etc.

4. Machinery for safeguarding conditions of living, including housing, transportation, etc.

5. Fact-gathering body to assemble and present data col-

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lected through various existing governmental agencies or by independent research, to furnish the information necessary for effective executive action.

6. Information and education division, which has the functions of developing sound public sentiment, securing an exchange of information between departments of labor administration, and promotion in industrial plants of local machinery helpful in carrying out the national labor program.

The programme of action thus outlined by the Council of National Defense was immediately approved by the President. As a first step towards its execution he, by executive order issued on January 4, 1918, designated the Secretary of Labor as Labor Administrator with the duty of taking the action that would establish a general direction and control over the work of the Government in the field of determining labor conditions and devising the means of meeting the several problems of labor raised by the war. Later, in May, 1918, Felix Frankfurter was appointed by the Secretary of Labor to act as his chief assistant as Labor Administrator. Mr. Frankfurter thus became in effect Assistant Labor Administrator.

The next step in carrying out this programme was the appointment by the Secretary of Labor, acting as Labor Administrator, on January 16, 1918, of an Advisory Council composed of John Lind, as Chairman and representative of the general public; Waddill Catchins, Chairman of the War Committee of the Chamber of Commerce of the United States, and A. A. London, Vice-Chairman of the Aircraft Board, as representatives of employers; John B. Lennon, Treasurer of the American Federation of Labor, and John J. Casey, former member of Congress, as representatives of employees; Professor L. C. Marshall of the University of Chicago,

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as representative of economists; and Miss Agnes Nestor, as representative of women in industry. In a statement published in the *Official Bulletin* of the same date, announcing the appointment of this Council, it was stated that:

The Labor Administrator and his advisory council will at once take in hand the questions of standardization of labor policies; the providing, distributing, and maintaining of a stable and adequate supply of workers; labor dilution and training, priority demands, the adjustment of disputes, and the safeguarding of employment, living, and housing conditions. The advisory council will study all phases of the problems, make recommendations and plans for additional machinery and supervise their execution. Because of the high standing and representative character of the advisory council the policies which it will formulate and execute are expected to receive the approval and support of employers, employees, and the general public.

Appreciation was had by the Secretary of Labor that if the labor policies to be adopted by the Government and the administration to be created for their formulation and execution were to be effective, they must have the united approval and support of both employers and employees. To this end Secretary Wilson, on January 28, 1918, provided for the creation of a body known as the War Labor Conference Board to consist of representatives of both employers and employees to assist him in the formulation of a labor programme. This Board, as described by the Secretary of Labor in the article in the *Saturday Evening Post* already referred to, was constituted in the following manner:

The National Industrial Conference Board named five representatives of employers to sit in this conference: L. F. Loree, a railway official and coal operator; C. Edwin Michael, a builder of bridges; Loyall A. Osborne, a manufacturer of



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electrical equipment; W. H. Van Dervoort, a structural engineer; and B. L. Worden, another bridge builder. These five men are among the largest employers of labor in the United States. Only one of them has ever dealt with labor unions in his private business. The American Federation of Labor named as its five representatives: Frank J. Hayes, of the mine workers; William L. Hutcheson, of the carpenters; Thomas J. Savage, of the machinists; Victor Olander, of the seamen; and T. A. Rickert, of the garment workers. Each set of five representatives named another to represent the general public. The employers' representatives selected William Howard Taft, the former President of the United States. The labor representatives chose Frank P. Walsh, recently the chairman of the Industrial Relations Commission.

This Board as the result of its deliberations formulated a programme of action which it submitted to the Secretary of Labor in the form of a letter dated March 29, 1918. This letter is a document of great importance, since it sets forth the fundamental programme that was adopted by the President for the handling of labor matters during the war. It is accordingly reproduced in full.

WASHINGTON, *March 29, 1918.*

HON. WILLIAM B. WILSON,  
Secretary of Labor.

SIR:

The commission of representatives of employers and workers, selected in accord with the suggestion of your letter of January 28, 1918, to aid in the formulation, in the present emergency, of a national labor program, present to you, as a result of their conferences, the following:

(a) That there be created, for the period of the war, a National War Labor Board of the same number and to be selected in the same manner and by the same agencies as the commission making this recommendation.

(b) That the functions and powers of the National Board shall be as follows:

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1. To bring about a settlement, by mediation and conciliation, of every controversy arising between employers and workers in the field of production necessary for the effective conduct of the war.

2. To do the same thing in similar controversies in other fields of national activity, delays and obstructions in which may, in the opinion of the National Board, affect detrimentally such production.

3. To provide such machinery by direct appointment, or otherwise, for selection of committees or boards to sit in various parts of the country where controversies arise, to secure settlement by local mediation and conciliation.

4. To summon the parties to the controversy for hearing and action by the National Board in case of failure to secure settlement by local mediation and conciliation.

(c) If the sincere and determined effort of the National Board shall fail to bring about a voluntary settlement, and the members of the Board shall be unable unanimously to agree upon a decision, then and in that case and only as a last resort, an umpire appointed in the manner provided in the next paragraph shall hear and finally decide the controversy under simple rules of procedure prescribed by the National Board.

(d) The members of the National Board shall choose the umpire by unanimous vote. Failing such choice, the name of the umpire shall be drawn by lot from a list of 10 suitable and disinterested persons to be nominated for the purpose by the President of the United States.

(e) The National Board shall hold its regular meetings in the city of Washington, with power to meet at any other place convenient for the Board and the occasion.

(f) The National Board may alter its methods and practice in settlement of controversies hereunder, from time to time as experience may suggest.

(g) The National Board shall refuse to take cognizance of a controversy between employer and workers in any field of industrial or other activity where there is by agreement or Federal law a means of settlement which had not been invoked.

(h) The place of each member of the National Board unavoidably detained from attending one or more of its sessions

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may be filled by a substitute to be named by such member as his regular substitute. The substitute shall have the same representative character as his principal.

(i) The National Board shall have power to appoint a secretary, and to create such other clerical organization under it as may be in its judgment necessary for the discharge of its duties.

(j) The National Board may apply to the Secretary of Labor for authority to use the machinery of the Department in its work for conciliation and mediation.

(k) The action of the National Board may be invoked in respect to controversies within its jurisdiction by the Secretary of Labor or by either side in a controversy or its duly authorized representative. The Board, after summary consideration, may refuse further hearing if the case is not of such character or importance to justify it.

(l) In the appointment of committees of its own members to act for the Board in general or local matters, and in the creation of local committees, the employers and the workers shall be equally represented.

(m) The representatives of the public in the Board shall preside alternately at successive sessions of the Board or as agreed upon.

(n) The Board in its mediating and conciliatory action, and the umpire in his consideration of a controversy, shall be governed by the following principles:

### PRINCIPLES TO BE OBSERVED

There should be no strikes or lockouts during the war.

#### *Right to Organize*

1. The right of workers to organize in trade-unions and to bargain collectively through chosen representatives is recognized and affirmed. This right shall not be denied, abridged, or interfered with by the employers in any manner whatsoever.

2. The right of employers to organize in associations of groups and to bargain collectively through chosen representatives is recognized and affirmed. This right shall not be denied, abridged, or interfered with by the workers in any manner whatsoever.

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3. Employers should not discharge workers for membership in trade-unions, nor for legitimate trade-union activities.

4. The workers, in the exercise of their right to organize, shall not use coercive measures of any kind to induce persons to join their organizations, nor to induce employers to bargain or deal therewith.

### *Existing Conditions*

1. In establishments where the union shop exists the same shall continue and the union standards as to wages, hours of labor, and other conditions of employment shall be maintained.

2. In establishments where union and nonunion men and women now work together, and the employer meets only with employees or representatives engaged in said establishments, the continuance of such condition shall not be deemed a grievance. This declaration, however, is not intended in any manner to deny the right or discourage the practice of the formation of labor unions, or the joining of the same by the workers in said establishments, as guaranteed in the last paragraph, nor to prevent the War Labor Board from urging, or any umpire from granting, under the machinery herein provided, improvement of their situation in the matter of wages, hours of labor, or other conditions, as shall be found desirable from time to time.

3. Established safeguards and regulations for the protection of the health and safety of workers shall not be relaxed.

### *Women in Industry*

If it shall become necessary to employ women on work ordinarily performed by men, they must be allowed equal pay for equal work and must not be allotted tasks disproportionate to their strength.

### *Hours of Labor*

The basic eight-hour day is recognized as applying in all cases in which existing law requires it. In all other cases the question of hours of labor shall be settled with due regard to governmental necessities and the welfare, health, and proper comfort of the workers.

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## *Maximum Production*

The maximum production of all war industries should be maintained, and methods of work and operation on the part of employers or workers which operate to delay or limit production, or which have a tendency to artificially increase the cost thereof, should be discouraged.

## *Mobilization of Labor*

For the purpose of mobilizing the labor supply with a view to its rapid and effective distribution, a permanent list of the number of skilled and other workers available in different parts of the Nation shall be kept on file by the Department of Labor, the information to be constantly furnished:

1. By the trade unions.
2. By State employment bureaus and Federal agencies of like character.
3. By the managers and operators of industrial establishments throughout the country.

These agencies should be given opportunity to aid in the distribution of labor, as necessity demands.

## *Custom of Localities*

In fixing wages, hours, and conditions of labor regard should always be had to the labor standards, wage scales, and other conditions prevailing in the localities affected.

## *The Living Wage*

1. The right of all workers, including common laborers, to a living wage is hereby declared.
2. In fixing wages, minimum rates of pay shall be established which will insure the subsistence of the worker and his family in health and reasonable comfort.

One of the most important recommendations contained in this report of the War Labor Conference Board was that there should be created a National War Labor Board, with the same number of members to be selected by the same agencies as the War Labor Con-

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ference Board, with the function of adjusting labor disputes in the manner and in accordance with the conditions set forth in its report. This recommendation was at once acted upon by the Secretary of Labor, which action was approved and confirmed by the President through the issue of a proclamation of April 8, 1918. In this proclamation, which gave to the Board the same membership as the War Labor Conference Board, the President stated that:

The powers, functions, and duties of the National War Labor Board shall be: To settle by mediation and conciliation controversies arising between employers and workers in fields of production necessary for the effective conduct of the war, or in other fields of national activity, delays and obstructions in which might, in the opinion of the National Board, affect detrimentally such production; to provide, by direct appointment or otherwise, for committees or boards to sit in various parts of the country where controversies arise and secure settlement by local mediation and conciliation; and to summon the parties to controversies for hearing and action by the National Board in event of failure to secure settlement by mediation and conciliation.

The principles to be observed and the methods to be followed by the National Board in exercising such powers and functions and performing such duties shall be those specified in the said report of the War Labor Conference Board dated March 29, 1918, a complete copy of which is hereunto appended.

The National Board shall refuse to take cognizance of a controversy between employer and workers in any field of industrial or other activity where there is by agreement or Federal law a means of settlement which has not been invoked.

It will be seen from the foregoing that the War Labor Conference Board was practically continued in existence under a new name, although it was given the better status of an agency directly created by the President. In commenting upon the establishment of this Board



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the Secretary of Labor, in his article in the *Saturday Evening Post* from which we have already quoted, made the following interesting statement of the manner in which the programme of the Board was formulated and the features in respect to which it differed from the policies and practices of the British Government in its efforts to meet a similar situation:

To guide it in its judgments the board sitting as the National Industrial Conference adopted a set of principles which, taken together, form the present labor policy of the United States for the duration of the war. These principles may well be astonishing to one who does not realize how closely labor and capital in the United States have been drawn together by the necessity to win the war. For these principles are not a set of rules drawn up by a labor convention nor are they open to the charge that they were dictated by a political administration anxious to curry favor with the labor vote. But they were written after sober deliberation by a conference in which both workers and employers were equally represented. As such these rules represent compromise on both sides.

There are some points of difference between this policy and the labor policy under which the industries of England are now operating, the chief point being that ours is a voluntary arrangement, whereas the British agreement, written by a joint conference of workers and employers in the spring of 1915, was afterward enacted as law with severe penalties to enforce its provisions. This agreement gave the Minister of Munitions power to control all war industries. He could take the plants and operate them if necessary. It limited the employer's profits to the peacetime average plus a slight increase. As a return concession the labor unions agreed to the fixing of a scale of wages as they existed then. Having fixed wages the Government set up a committee whose duty it was to see to it that labor did not suffer from the mounting cost of living. Whenever it becomes necessary to raise wages on this account the Government itself pays the increase.

Under the British agreement strikes and lockouts are illegal. Arbitration is compulsory. Any man who is responsible for

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a cessation of work, whether he is an employer or an employee, lays himself liable to heavy penalties. The Government arranges arbitration in disputes. The trade unions surrender the principle of the closed shop for the duration of the war, and they agree that any person may be allowed to do any kind of work. The Government in return is pledged to restore pre-war conditions in the shops after the war.

The National War Labor Board at once organized and began operations. On May 10, 1918, announcement was made that W. Jett Lauck, a prominent student and investigator of labor problems, had been appointed Executive Secretary of the Board. On May 14, 1918, the Board announced that after thorough consideration it had agreed upon a plan of procedure to be followed in the adjudication by it of labor disputes. This plan, as set forth in the announcement which appeared in the *Official Bulletin* of that date, provided that an attempt would first be made to settle labor differences through informal mediation by sections, local committees, or otherwise; and that if such efforts failed, the Board would then sit as a board of arbitration and make an award if it could reach a unanimous decision. If unanimity could not be secured, selection would then be made of an umpire to review the issues and make a final award. On July 10, 1918, the President addressed a letter to the Board informing it that he had made a selection of ten persons to serve as a panel from which an umpire as above provided for would be selected as need for such services arose.

Since its organization the Board has been called upon to adjust a number of very important labor disputes. Among these were disputes between the following companies and their employees: the Western Union and Postal Telegraph Companies, General Electric Com-

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pany; 53 firms and corporations of Bridgeport, Connecticut; International Paper Company and other newsprint-paper and pulp concerns; 22 street-railway companies; and the Bethlehem Steel Company. The action taken by the Board in respect to these differences was reported in successive numbers of the *Official Bulletin*. In all but a few cases, of which that of the Western Union Telegraph Company was the most important, the award of the Board was accepted by the parties involved. The Western Union controversy was subsequently adjusted after the Government took over the operation of the telegraph and telephone systems of the country.

On November 19, 1918, Mr. Walsh resigned as one of the two heads of the Board, and was succeeded on November 27 by Basil M. Manly. On December 6, 1918, the Board announced that, because of changed conditions following the signing of the armistice, it would thereafter consider only controversies jointly submitted to it.

The National War Labor Board, as organized, was an administrative body, the chief function of which was to secure the adjustment of labor differences that threatened or actually broke out. To supplement the work of this body there was felt the need for another body that, free from all administrative responsibilities, could devote itself to the consideration of all the various labor problems confronting the Government and the formulation of the policies that should be followed by the National War Labor Board and other administrative agencies in meeting them.

To meet this need announcement was made in the *Official Bulletin* of May 17, 1918, that a new body would be created to be known as the War Labor Policies Board,

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and on June 8, 1918, the further announcement was made that this Board had been constituted with the following membership: Felix Frankfurter, Assistant to the Secretary of Labor as Labor Administrator, Chairman of the Board and representative of the Labor Administration; Stanley King, Assistant to the Secretary of War in charge of industrial relations, representative of the War Department; Franklin D. Roosevelt, Assistant Secretary of the Navy, representative of the Navy Department; G. I. Christie, Assistant to the Secretary of Agriculture in charge of farm-labor activities, representative of the Department of Agriculture; Hugh Frayne, Chairman of the Labor Division and member of the Price-Fixing Committee of the War Industries Board, representative of the War Industries Board; John P. White, Labor Representative of the Fuel Administration, representative of the Fuel Administration; R. P. Bass, in charge of labor matters, United States Shipping Board, representative of the Shipping Board; Howard Coonley, Vice-President of the Emergency Fleet Corporation, or Charles Piez, former General Manager of the Emergency Fleet Corporation, representative of the United States Shipping Board Emergency Fleet Corporation; and representatives of the Food and Railroad Administrations to be afterwards designated.

It will be seen that the theory on which this Board was constituted was to have represented on it all branches of the Government service that were large employers of labor, and in each case to have as representative the officer exercising chief responsibility for the determination of labor policies and conditions for the service represented. The functions of this Board, in contradistinction to those of the National War Labor Board, were

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stated in the announcement of May 17, 1918, to be as follows:

The Policies Board will determine, directly for war industries and indirectly for nonwar industries, all questions involving the distribution of labor, wages, hours, and working conditions, and its decisions will be executed by the various production departments of the Government, each represented in its membership. This execution will be direct for all industries engaged in war work. The decisions will be given effect in nonwar industries through the machinery of the War Industries Board, which controls the flow of raw materials for all industries.

The distinction between the machinery of which Mr. Frankfurter has been placed in charge and the functions of the National War Labor Board, headed by former President William H. Taft and Frank P. Walsh, is that the first will be administrative and the second judicial and legislative-judicial in the sense that it will be the court of appeal where one or more of its enunciated principles is involved in dispute, even as between an appellant and any branch or board of the Government, and legislative at such times as the establishment of a new principle to govern industrial relations is in contemplation. The so-called Taft-Walsh board is a court of adjustment of differences between employer and employee with final jurisdiction in cases where its governing principles are in question. . . .

The Policies Board will be representative of the War Department, the Navy Department, the Department of Agriculture, The Emergency Fleet Corporation, the Railroad Administration, the War Industries Board, and the National War Labor Board. Its functions, while in a sense technical, will be thoroughly administrative inasmuch as its decisions will be carried out by the departments and agencies represented in its membership.

In the matter of wages it will not attempt to set a flat rate for any one craft or trade in the country as a whole. But it will fix standards to be determined for all industries in a given section of the country after investigations disclosing the conditions of life, including the cost of living and the ser-

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vice rendered. The facts will be ascertained justly and comprehensively from information to be sought from the workers' own organization, private employers and their organizations, Government bureaus, and wherever else exact knowledge may be secured.

We must husband our labor supply so as to satisfy the war needs of the country to the fullest possible practical extent. It is necessary, therefore, that the sources of supply be wisely directed and employed. With respect to this phase of the industrial problem it will be the function of the War Policies Board to allocate the supply according to the productive needs of the country. Under decisions of the Board on this score it will be impossible for one industry to draw the labor supply from another, unless it has been regularly determined that the first industry has a higher claim upon the supply on the basis of a more pressing Government need than the industry from which it would draw the workers. This question will, of course, be determined by the War Policies Board. But by the establishment of standardized wage conditions the incentive for workers to leave one industry and go to another will have been removed anyhow.

In addition to controlling the labor supply by the methods just reviewed, the Policies Board will also regulate hours of labor in the various industries and determine the needs of industry with regard to housing and transportation facilities, etc.

Inasmuch as the function of this Board was that of formulating policies rather than of taking action administratively, its activities have not been as much in evidence as those of its sister organization, the National War Labor Board. That there might be no doubt regarding the fact that these two bodies were in accord as regards fundamentals, the War Labor Policies Board, on July 12, 1918, published a resolution adopted by it, stating that "the general principles and policies governing the relations of employers and labor adopted by the War Labor Board and approved and pronounced by President Wilson are incorporated and embodied as part



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of the general guiding principles and policies of the War Labor Policies Board.”

The first results of the work of the Board of a constructive character were embodied in a resolution, a copy of which was published in the *Official Bulletin* of July 17, 1918, setting forth at length the standards and conditions of employment that should be observed by all Government agencies in the employment of women in war industries. These standards and conditions, it was stated, had been approved by all the production and distribution agencies of the Government. The resolution read as follows:

The existing shortage of labor, aggravated daily by the military and naval demands of the Government, which require a greatly increased production of war materials and at the same time the withdrawal from civilian occupations of about a quarter of a million additional recruits each month, necessitates widespread recourse to the labor of women in the United States.

In order that their services may be fully utilized and their working power conserved, a clearly defined policy is needed which shall determine what kinds of work women should perform, how they should best be introduced, under what conditions they should be employed, and what work should be prohibited.

Standards as to hours, night work, wages, and conditions of labor have already been provided by the Government in orders issued by the Chief of Ordnance and the Quartermaster-General, and in the recommendations made by the War Labor Board, which should be observed by all employers.

*First:* The shortage of labor in essential war industries should be met in part by further introducing women into occupations easily filled by them, such as clerical and cashier service and accounting in manufacturing, mercantile, and financial establishments and in the offices of transportation companies and other public utilities, such as sales clerks and floor walkers in mercantile establishments, including among

others department stores, specialty stores, shoe stores, mens furnishing stores, florists' shops, jewelry stores, drug stores, soda water fountains, etc.

*Second:* Women should not be employed to replace men in occupations or places of employment clearly unfit for women owing to physical or moral conditions, as, for instance, in barrooms and saloons, in pool rooms, in or about mines, smelters, and quarries, on furnace work in glass works, etc. In addition, girls under 21 years of age should not be employed in occupations or places of employment clearly unfit for them owing to their youth, as for instance in the public messenger service, in street car, elevated and subway transportation service, as elevator operators, as bell boys in hotels and clubs, etc.

*Third:* 1. The introduction of women into war industries or into employments involving special hazards such as the use of industrial poisons should be guided by the standards as to health, comfort, and safety set up from time to time by the War Labor Policies Board, in addition to the standards already defined by the Federal Government and by State labor departments.

2. The introduction of women into new occupations such as street railway service, public messenger service, etc., should be guided by regulations concerning hours of labor, night work, etc. Such, for instance, as those adopted by the Industrial Commission of Wisconsin for street railway service and by the legislature of New York State for messenger service.

3. The recruiting of mothers or young children for war industries should be discouraged.

4. The introduction of women into positions hereto filled by men should not be made a pretext for unnecessarily displacing men.

Services of the Division of Women in Industry should be sought by employers to advise on best methods of introducing women, and the working conditions which should be established.

*Fourth:* Older men should be more generally employed. They constitute a largely unused labor reserve. In the past they have been considered superannuated at early ages. It is estimated that since the war began the maximum age of

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engaging men has advanced 10 to 12 years—that is, from about 38 to 50. It has been found that tasks can be graded for these workers according to their strength, and that work unsuitable for women, especially at night, can be performed by them. In many trades their experience is an asset which offsets less physical strength. Thus the productive power of this large class, now wasted, can be utilized.

The needs of the country require the united efforts of all classes of workers, in accordance with their capacities; and to maintain the standards and conditions of labor set up by the Government is, in the words of President Wilson, “indispensable to the Nation’s full productive efficiency.”

The most difficult problem confronting the War Labor Policies Board was that of standardizing, as far as feasible, wages and hours of labor in the various industries throughout the country. This standardization was urgently needed as constituting the essential basis for controlling the excessive turnover of labor due to employees’ shifting from one job to another as more advantageous conditions were offered by employers in competing for labor. In regard to this problem Mr. Frankfurter, the Chairman of the Board, in a statement published in the *Official Bulletin* of July 25, 1918, said:

For several days the War Labor Policies Board has been conferring with representatives of union labor and with representatives of industrial management concerning the national standardization of wages.

In seeking standardization the precedents of unionized industry are being followed. Wages have, of course, long been standardized by the agreements of employers and employees in many industries.

The same kind of standards which the railroad brotherhoods and the railroad managers established in the transportation systems, the same kind of standards which the organized coal miners and the coal operators set up in the well-developed coal fields, the same kind of standards which the carpenters, the blacksmiths, the plumbers, the organized tailors created

by agreement with their employers the War Labor Policies Board is, also by mutual consent, negotiating for the entire country.

Wage standardization merely extends the familiar method of wage fixing to cover the entire Nation. What has been done in many industries the War Labor Policies Board is planning for the whole people. But, although wage standardization admittedly follows familiar precedent, it is solely a war measure. . . .

Congress, through the taxes on excess profits, the War Industries Board, through its price-fixing, the President, through the veto of \$2.40 wheat, have prepared the way for standardization of wages. Additional methods of keeping down the cost of living are being investigated at this time.

All these measures, past and pending, have revealed the determination of the American people to let no one make money out of the war. What price-fixing means for the manufacturer, wage standardization is to the workers of the country.

That means plainly that just as the price-fixing committee takes into account the cost of production and proper profits, so wage standardization must be built upon an accurate knowledge of the cost of living and a just estimate of what makes up the right American standard.

Upon these general grounds the War Labor Policies Board is advancing, as rapidly as the gravity of the problem permits, to the establishment of standard wages.

It does not appear that this ambitious programme of the Board was ever put into execution. Had the war continued longer, however, it is quite possible that the country would have been presented with a system of wage fixing by the Government analogous in all essential respects to that of price fixing as practiced by the War Industries Board and other war agencies.

On July 16, 1918, the Secretary of Labor made announcement in the *Official Bulletin* that, as a final step in the organization of a special War Labor Administra-

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tion, provision had been made for the formation of a departmental cabinet to embrace the chiefs of all labor services constituting a part of the Department of Labor or Labor Administration. Evidence is not available regarding the extent to which this body in practice proved to be a valuable tool of administration.

The second phase of the war labor problem was that of the recruitment of labor and its direction into the channels where it was most needed. In our consideration of the organization and work of the Shipping Board an account has been given of the activities of that body having for their purpose the securing and training of men, both for the shipyards and for the operation of the new fleet of vessels the Board was in process of constructing. Analogous work on a somewhat more restricted scale had to be done by other agencies. These efforts had for their purpose to meet the needs of specific agencies of the Government. There was, however, a much broader need for a general recruitment service that would mobilize the labor of the country generally for industrial purposes. To meet this need there was established under the Department of Labor a recruitment service under the name of the United States Employment Service.

For some years prior to the outbreak of the war the Department of Labor had a service the function of which was to assist employers in securing labor and laborers out of employment in securing employment. Authority for the establishment of this service was given by Section 40 of the Immigration Act of February 20, 1909, which provided for the establishment within the Bureau of Immigration, then under the Department of Commerce and Labor, of a Division of Information to

have the function of giving assistance to aliens and others in securing employment. On the creation of the Department of Labor by the Act of March 4, 1913, the Bureau of Immigration, and with it its Division of Information, was transferred to that Department.

Almost immediately upon its organization in 1914, the Department of Labor took steps for the conversion of this Division of Information, which until then had operated solely as a service for the placing of alien immigrants, into a general employment service for the placing of labor of all kinds. Statutory authority for doing this was found in the wording of the Act creating the Division of Information, which in describing the scope of the Division used the term aliens "and others," and in the organic Act of the Department, which provided that the "purpose of the Department of Labor shall be to foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions and to advance their opportunities for profitable employment."

This new, expanded service was given the name of United States Employment Service. Because of the fact that its operations covered other than aliens, this Service was deemed to be one directly attached to the office of the Secretary of Labor. The old statutorily created Division of Information in the Bureau of Immigration was continued in existence, and in fact constituted the chief agency through which the new Service performed its functions.

The Employment Service immediately entered upon the work of creating a field service that would cover the whole United States. For this purpose the country was divided into zones and labor exchanges with sub-branches were established in each. On June 30, 1916, there were



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20 such zones with as many labor exchanges or central offices and 62 sub-branches. These stations constituted, however, but a part of the machinery at the disposal of the service. Arrangements were made with the Post Office Department by which all of the post offices were utilized practically as branch offices.

The nature of this coöperation with the Post Office Department is thus described by the Secretary of Labor in his annual report for 1915:

Either employer or workman may obtain at any post office in the United States a blank application supplied by this Department, which, after filling out and signing it, he may deposit in the mails anywhere free of postage. Sometimes an application for an employer and one for a worker in the same post office neighborhood may be mutual in their requirements. In such cases the postmaster often brings the parties together without forwarding their applications. Otherwise all applications go from the post office where deposited to the nearest station or substation of this department. They are there compared for the purpose of noting reciprocal requirements and bringing workseeker and employer together. This is done as fully as possible at each station and substation. But applications which remain unmatched at the respective stations and substations are recorded for future reference and then promptly forwarded to the Division of Information at Washington, where an examination results in comparisons of all unmatched applications from the country at large. Such of these as still remain unmatched are bulletined to all stations and substations with a view to their being matched at one or another of them.

The Employment Service also established coöperative relations with all state and municipal employment bureaus and sought to make of itself an agency for coördinating the work of these establishments. In furtherance of this aim the Department of Labor in 1915 called a general conference of all official employment

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agencies, the most important result of which was the creation of a joint advisory board to act as a general advisory body in securing effective coöperative relations between these organizations and their welding, as far as circumstances would permit, into a national employment system.

Pursuant to recommendations of the Commissioner-General of Immigration, a women's and children's division was created in 1916 to concern itself especially with the placing of women and children in suitable employments. That the operations of the Service were on a considerable scale is shown by the fact that during the year ending June 20, 1916, 25,640 applications for help were received calling for 109,771 laborers, and 184,481 applications from laborers for positions, of whom 84,953 were referred to employment and 75,195 actually furnished with employment.

Finally, in 1914 the Employment Service undertook the special work of securing farm hands for harvesting work. Regarding this work the Secretary of Labor in his report for 1916 said:

Partly as the result of conferences with the National Farm Labor Exchange at its conference of 1915 at Kansas City, the third session of harvest-help distribution under the auspices of this Department, that of 1916, was undertaken. Headquarters were established at Kansas City as before, under the general charge of Canon L. Green, of the U. S. Employment Service. Arrangements with labor-law officials of the various states in the grain belt had been made at the convention, and in May bulletins were sent to all postmasters of the first, second and third class. From May 20 to June 30, 3,922 men had been placed, of whom 2,402 had applied in person and the remainder by mail. They came from all parts of the United States and included teachers, students, miners, machinists, laborers, farmers and professional men. As this harvest-help service overlaps the fiscal year, beginning late in

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May and ending about the middle of July, the full data cannot be presented in this year's report.

This work of securing farm help was performed in close coöperation with the Department of Agriculture.

It will be seen from the foregoing that, although there was no express statutory authority for its creation, the National Government had in fact at the time of our entrance into the war a general Employment Service with offices and branch offices extending over the United States, and that a substantial beginning had been made in making use of this Service to coördinate the work of official employment agencies generally. The Service, however, received congressional sanction through the grant by Congress in the Urgency Deficiencies Act of October 6, 1917, and subsequent appropriation Acts of money for its support.

In addition to operating a general employment agency, the Service undertook a number of special activities having for their purpose the mobilization of the labor supply of the country for war purposes. In May, 1917, it created a subdivision of its service known as the United States Boys' Working Reserve, the purpose of which was to enroll youths between the ages of 16 and 21 who were willing to engage in farm or other work and to furnish them to employers having need of their services. In the following month, June, 1917, the Secretary of Labor created an analogous organization for male adults to which was given the name, United States Public Service Reserve. On the entrance of the United States into the war thousands of persons not available for military duty properly speaking offered their services to the Government, and many other thousands were willing to do the same if they had any assurance that

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their offers would be accepted. If avail was to be taken of this potential labor supply for Government work, it was necessary that some agency should be created by which these offers might be received and classified and the men placed where their services would be of the most use. The Public Service Reserve was organized for this purpose. In the spring of 1918 the Employment Service organized a Farm Service Division having for its purpose to coöperate with the Department of Agriculture in the recruitment and placement of farm laborers. A few months later, in June, 1918, it created a special Division of Stevedores and Marine Workers to act as the exclusive agency for the recruitment of stevedores, marine workers, and longshoremen in every port in the United States. This service was established as the result of a conference of representatives of the War and Navy Departments, the Shipping Board, the Railway Administration, and the Department of Labor, held for the purpose of devising means for expediting the loading and unloading of war cargoes. Other special divisions created were the Women's Division, to concern itself especially with the recruitment of women workers for war purposes, and an Information and Education Service, to act as a general bureau of information in respect to labor matters. Finally, the Employment Service coöperated with the Shipping Board in the latter's efforts to secure men for its plants.

It will be seen from the foregoing that by the middle of 1918 the Department of Labor had brought into existence a labor-recruitment service that embraced all classes of labor; that the field establishment included numerous offices and substations located throughout the United States; and that the Employment Service had established effective working relations with other De-

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partments of the Government, such as the Post Office Department, the Department of Agriculture, the Shipping Board, and the Council of National Defense, with state and municipal labor exchanges, and with numerous private organizations. Up to this time, however, its operations were on a purely voluntary basis. No employer or employee was under compulsion to make use of its services unless he cared to do so. As the demand for labor increased, the evils of competition between different branches of the Government and different private plants engaged upon war work for labor, with the result of an enormous labor turnover and constantly rising wages, became more and more manifest. It became evident that some action had to be taken by the Government to meet this situation analogous to that taken through the War Industries Board to stabilize prices and determine priorities in the supply of materials, production, and disposition of commodities.

This question was one of the first to receive the attention of the War Labor Policies Board. The result of its consideration was the passage on June 15, 1918, of a resolution expressing the opinion that all recruiting of industrial labor for public or private work connected with the war should be conducted through or in accordance with methods authorized by the United States Employment Service; that this programme should be inaugurated on August 1, 1918, as regards unskilled labor and be extended to other classes of labor as rapidly as circumstances permitted; and that the Labor Policies Board should appoint a Labor Priorities Committee that would determine where available labor should go in the same way that the Priorities Committee of the War Industries Board controlled the distribution of materials and supplies.



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In bringing this resolution to the attention of the President, the Secretary of Labor in a letter of June 15, 1918, dealing with this subject said:

MY DEAR MR. PRESIDENT:

Our increasing military energies are putting strains upon industry which call for the most careful husbanding of our man power. We can no longer leave our labor supply to the unregulated forces of competition, nor even to the patriotic efforts of diverse agencies of the Government unrelated to a comprehensive policy and unified direction. There is an increasing shortage of unskilled labor for war projects, and likewise a shortage in certain classes of skilled workers. The needed labor must be secured for war industries by drawing upon nonessential or less essential industries. At present this is done largely at haphazard. A dispensable industry competes for the labor of an essential plant; instances are frequent where one Government project secures men at the expense of another. As a result, the labor turnover is alarmingly great, with a loss in war efficiency which we cannot afford. Not the least of the consequences of the existing situation is its effect upon the morale of workers in the restlessness which it produces and even encourages.

These are largely the natural consequences of subjecting to a new terrific strain existing agencies and old attitudes of mind. We can no longer submit to these. The first problem, therefore, to which the War Labor Policies Board addressed itself was the formulation of a plan to centralize the recruiting of so-called unskilled labor and thus to insure the fullest use of such labor to the needs of the war. I am glad to report to you that the Board has arrived at a plan which embodies the opinion of every production department of the Government and is supported by the thought of representatives of industry and labor who have been in our counsel in working out this problem.

The essence of the plan is the recognition that one centralized national agency is demanded for recruiting the workers for the Nation's war needs; that the United States Employment Service of this Department is the agency appropriate for this task; that adequate resources must be given to this



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Service and corresponding effectiveness must be secured to enable it to discharge the responsibility. Accordingly every department of the Government, through the strength at its disposal, whether it be by the mechanism of contract or by shutting off raw material from a recalcitrant industry, is pledged to the enforcement of this plan. It will mean, of course, that thereafter all private enterprise in securing labor on a substantial scale will be prohibited by the full authority at the disposal of the Government. Time must be given to make the needed adjustment, and therefore it has been deemed wise to postpone the installation of the new plan until August 1, 1918.

I write you thus at length because the proper mobilization and distribution of labor are themselves part of a fruitful and just national labor policy, and without these we can not hope for progress in the solution of other labor questions that call for settlement. The success of the plan is therefore indispensable. While it may encounter obstruction because of minor selfish interests which it must offend, we need not anticipate serious difficulties if the public mind is fully apprised and the Nation's understanding of our purposes is enlisted. The Policies Board, therefore, deemed the public announcement of this program of sufficient national importance to deserve, and indeed to call for, its proclamation by you. I share this conviction and join in this recommendation of the Policies Board. I strongly hope that the need of this action will commend itself to your wisdom.

Faithfully yours,

W. B. WILSON,  
Secretary.

THE PRESIDENT,  
The White House.

This request was acted upon by the President, who, under date of June 17, 1918, issued to the public a statement in which he solemnly urged all employers engaged in war work to refrain after August 1, 1918, from recruiting unskilled labor except through the United States Employment Service, and all labor to respond

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loyally to any calls issued by that agency for voluntary enlistment in essential industries. It will be noted that this statement was not in the form of an executive order or proclamation, and thus legally constituted only an appeal to employers and employees to follow the programme to which it referred.

That it might be in a position to perform the work thus thrown upon it, the Employment Service, immediately following the publication of the statement of the President, undertook the prosecution of two surveys — one of the common-labor requirements of war industries and the other of the common-labor reserves in each state. To this end all war industries were called upon to make report to the Service, upon blanks furnished to them for the purpose, through the particular Government department or board with which their contracts were made, of their immediate common-labor requirements, an estimate of their weekly requirements from July 15 through August and a lump estimate of their needs from September 1 to October 1, and certain other information. The estimate of the number of unskilled workers not engaged in war work was made through the State directors of the Employment Service, its Public Service Bureau, and other agencies.

On July 15, 1918, the Employment Service issued its instructions to incidental establishments engaged upon war work regarding their duties under the new system. These were supplemented by still more formal and detailed instructions issued under date of August 1, 1918, when the system went into force as regards unskilled labor. These instructions authorized the continuance of private recruiting subject to regulations and restrictions set forth in the letter of instructions. Among these regulations and restrictions the most important were: that

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employers might continue to hire workers applying at the plant without solicitation direct or indirect; that all advertising for unskilled labor whether by card, poster, newspaper, handbill, or otherwise, should cease after August 1, 1918; that the Federal director of employment in each state might grant permission to employers to recruit labor through their own agents within the states in which their plants were located, but that permission to do this in other states should first be obtained from the Director-General of the United States Employment Service; and that no unskilled labor should be transported from one state to another without the authorization of the Director-General of the United States Employment Service.

This system was devised after a three-days conference of officers of the Employment Service with employment managers and state employment agents. The most important new agency created for the administration of the system was the local "community labor board," composed of a representative of the Employment Service, a representative of the employers, and a representative of the workers of the community in which each board operated. Provision for these boards, it was stated, was made "in order to stabilize labor recruiting and distribution as far as possible;" and the duties of the boards were stated to be to "assist in recruiting local labor" and to "decide on the relative needs of local establishments and prorate labor supply when the supply is less than needed."

This system went into effect so shortly before the termination of hostilities and the consequent lessening of the pressure for workers that no time was afforded to demonstrate the extent to which it was adapted to meet the needs of the situation. An account of it has

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been given, however, since it furnishes such an interesting example of the attempt to put into effect a system of labor control and priorities analogous to that which had been worked out for materials by the War Industries Board.

A phase of the labor problem brought about by the war the importance of which was not immediately appreciated was that of the housing of the workmen and their families who were assembled at the new or enlarged plants for the manufacture of war supplies. In some cases these plants were erected on vacant ground situated at a considerable distance from settled areas. In other cases the plants located in particular cities and towns were so numerous or on such a scale as to create a demand for housing facilities utterly beyond what such cities and towns could supply. Under normal conditions dependence might have been placed on private initiative for meeting this need. Conditions, however, were not normal. Many of the plants were either of a character that could not be expected to be permanent or were on a scale much larger than they would probably be in times of peace. The demand for increased housing facilities was thus in large part but a temporary one. The cost of building was so high that there was little likelihood that houses erected during the war could be made to pay after the war was over. Again, capital with which to finance building operations was exceedingly difficult to obtain. The same was true in respect to the materials and labor required. Under these conditions not only was there a failure on the part of private capital to enter the field, but there was little or no hope that it could be induced to do so. The situation in many places became steadily worse. Not only

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were living conditions bad, but the actual prosecution of the war work was seriously jeopardized through the refusal of employees, and especially those belonging to the skilled grades of labor, to remain at plants where they could not secure proper housing accommodations for themselves and their families at reasonable rates.

By the spring of 1918 it became evident that the situation could only be met by the National Government's itself providing the funds with which to build the houses needed and taking the steps to see that such houses were built. Congress was appealed to, and on May 16, 1918, passed an Act authorizing the President to expend not to exceed \$60,000,000 for this work, of which sum \$10,000,000 was to be for the purpose of providing housing accommodations for war workers at Washington. This Act was supplemented by provisions contained in the Urgent Deficiencies Act of June 4, 1918, which not only appropriated the \$60,000,000, the expenditure of which had been authorized, but empowered the President to create for the purpose of carrying out the work authorized a corporation or corporations, and directed that the appropriation should be deemed to be a revolving fund until June 30, 1919. Subsequent legislation appropriated an additional sum of \$40,000,000, thus raising the total available to \$100,000,000, not including the \$50,000,000 which, as has been shown, was granted to the United States Shipping Board to enable it to provide housing accommodations for workers at shipbuilding plants.

Acting under the authority conferred upon him by the Overman Act, the President by executive order of June 18, 1918, vested the expenditure of this sum and the doing of all things called for by the Housing Act in the Secretary of Labor. The latter created for this

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purpose a special service under the name of the Bureau of Industrial Housing and Transportation, and appointed Otto M. Eidlitz as its Director.

The Bureau of Industrial Housing and Transportation had general responsibility for the working out of a housing and transportation programme for war workers. The actual work of constructing and operating the houses was turned over to the United States Housing Corporation, a corporation specially incorporated for that purpose under the laws of the State of New York on July 9, 1918. This Corporation in its report submitted December 3, 1918, stated that its policy in seeking to meet the housing needs created by the war consisted in:

(a) Making available to the utmost such housing facilities as were found by careful investigation to exist in or near the communities in question.

(b) By linking up, through improved transportation, the places where labor was needed with the places capable of housing it.

(c) By stimulating, aiding and encouraging private capital to build.

(d) By aiding in the distribution of labor and in the placing of war contracts in order that housing congestion might in this manner be avoided or reduced.

And, finally, and only as a last resort:

(e) By the construction and operation of houses, apartments and dormitories.

Notwithstanding the desire of the Housing Corporation to avoid building whenever possible, it found it necessary to engage in operations of this character on a large scale. Allotments for house construction were provisionally made in 76 cities. At the time the report was rendered, 26 development schemes, involving an expenditure of \$66,560,650, for building houses, were un-



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der way. These houses, it was estimated, would provide accommodations for 9,000 families, or about 45,000 individuals.

In few or no cases had this work been completed when the armistice was signed. In some cases where the work was well advanced, the houses have been pushed to completion. In other cases the work was suspended and the material entering into the houses or accumulated was sold for what it would bring. In large part the sum expended represents a final loss to be charged against the general expenses of the war.

## CHAPTER XI

### THE MOBILIZATION OF FOOD PRODUCTS

Conditions dictating food control—Need of the Allies and friendly neutrals for food supplies—Necessity for protecting our own people from excessive prices, profiteering, and hoarding—Voluntary coöperation the basis of the policy of control—Powers of enforcement derived from Congress—The Food Stimulation Act—Food and Fuel Control Act—Creation of the United States Food Administration under Herbert C. Hoover—Its functions as distinguished from those of the Department of Agriculture—Principles governing the administration of the Food Administration—Its activities and operations—In stimulating production—In promoting economy in consumption—In controlling consumption and distribution through a licensing system—In controlling profits—In fixing prices—In controlling imports and exports—In coördinating purchases—The problem of wheat—Basic guaranteed price fixed by the President—The Food Administration Grain Corporation—Its organization, resources, and operations—The problem of sugar—The Sugar Equalization Board—The American Relief Administration—Salient features of the food-control system.

The necessity for the assumption by the Government of direction and control over the production, distribution, and consumption of food products arose from two major causes: (1) the imperative need on the part of our allies and neutrals for a much larger quantity of food and feed stuffs than we were accustomed to send them; and (2) the necessity for protection of our own public from the evils of excessive prices, profiteering, hoarding, and other inevitable consequences of a condition in which demand far outran supply.

The increased need of our allies and the neutral nations of Europe arose from the extent to which the manhood of the former had been drawn from productive pursuits to meet military exigencies; the occupation of

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nearly all Belgium and a considerable part of France by the enemy; the closing of the resources of Russia, Serbia and Rumania; and the shortage of ocean tonnage which made it practically impossible to tap the food resources of remote countries, such as the Far East, Australia, and Argentina. The Allies had reached practically the limit of their resources in respect to the production of food. They had cut down their consumption to an extent that threatened their physical wellbeing and military morale. All the Allied peoples were living under a rigid system of food rations. The United States was the only country to which they could look for the supply of their deficiencies. Our sufferings from the war were incomparably smaller than theirs. The least we could do was to exert ourselves to the utmost to make this contribution to the general cause which was within our power. This contribution we could not make in adequate amount unless we took steps to increase our surplus of food available for export, through a stimulation of production on the one hand and a saving in consumption on the other.

The second reason for taking energetic measures to control the food situation was equally imperative. With demand far outrunning supply we were facing a situation of extreme gravity in respect to prices and the conditions under which such supply as was available could be secured. As Mr. Hoover, afterwards appointed Food Administrator, eloquently pointed out in his testimony before the Senate Committee on Agriculture when the Lever bill, which became the Food and Fuel Control Act, was under consideration:

We are just finishing a year of preliminary experience with unchecked suction from the food vacuum of Europe, and as

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the food supply of the world will be even less next year than last, the suction of that vacuum will be much stronger. We already find ourselves with unprecedented prices and with our distributing trades rampant with speculation. This speculation is not wholly deliberate, but arises from the endeavor of every link in the distributing chain to protect itself from the uncertainties of the future. It appears from a study of the situation that there has grown up in this country a greatly increased amount of forward contracting in an endeavor on the part of the various links of the distributing trade to protect themselves in supplies and varying prices. The retailer demands of the wholesaler an assurance of his supplies for a long period ahead. The wholesaler, in making promises to the retailer must make a high price as he, the wholesaler, is in this transaction only wagering on his ability to secure supplies at the date set. The wholesaler turns to the manufacturer and the same operation repeats itself, for the manufacturer must contract in advance of the actual production. The result is that we have such a position as that existing in the canning trade at the present moment, when the entire output of the American canners for 1917 has been sold to the jobbers before the vegetables, fruit or fish to be packed have yet emerged to the surface.

That the situation was anomalous in the extreme is shown by the fact that prices of staple food products in the United States were in many cases far in excess of those obtaining in countries obtaining these supplies from us. Mr. Hoover continued in his testimony:

Altogether we face the annoying situation of the country producing a surplus of foodstuffs and paying the highest prices known to its history. There can be no more vivid evidence of the desirability of food control in this situation than a comparison between our prices and the prices of foodstuffs in countries where there is some measure of food administration. I will not traverse the prices of all commodities more than to say, as a general fact, the average prices to the consumer are lower in food-controlled countries than in the

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United States. Practically the entire wheat supply to Belgium is today imported from the United States and despite the extraordinary costs of transportation, the price of bread is sixty per cent. of the price in New York City. A large portion of the wheat in France comes from this country, and yet the price of bread is again forty per cent. below our own. In England, where food control was started late, the price is thirty per cent. below our price and in Canada, again, we see a lower range of prices to the consumer than in our own country, although the producer realizes the same price.

Another feature of danger in the situation was that of hoarding on the part of consumers. The setting aside of a few pounds of this or that food commodity by one or two consumers was of little importance, but with inadequate supplies and rising prices the practice of hoarding generally might easily develop. This, as it has been picturesquely put, would amount to a run on the food bank which could not be met without disaster.

Analysis of the food situation as it confronted the United States on our entrance into the war showed that if it was to be met, action had to be taken in respect to almost every element of the food trade from production to consumption. In taking this action it was of prime importance that the United States should adopt a consistent policy. In respect to this the important decision was made to avoid the legal rationing system adopted by European countries and to place the main dependence upon voluntary coöperation on the part of the various branches of the food trade and the consuming public for the carrying out of such regulations as the Food Administration might promulgate. The reasons for this decision were admirably put by Mr. Hoover in his testimony before the Senate Committee on Agriculture to which reference has already been made:

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The legislation proposed does not confer food dictatorship, nor does the administration devised contemplate anything of that nature. The food administrations of Europe and the powers that they possess are of the nature of dictatorships, but happily ours is not as their plight, for we have reached no point of desperation in our food supply. The character of the administration proposed is based on an entirely different conception from that of Europe. The tendency there has been for the Government to take over the functions of the middleman, first with one commodity and then another, until, in the extreme case of Germany, practically all food commodities are taken directly by the Government from the producer and allotted on an iron-clad system of ticket distribution to the consumer. The whole of the great distributing agencies, and the financial system which revolved around them, have been suspended for the war or destroyed for good. That is the system which is dictatorship and which, so far as I can see, this country need never approach. In distinction from this, our conception of the problem in the United States is that we should assemble the voluntary effort of the people, of the men who represent the great trades; that we should, in effect, undertake with their coöperation the regulation of the distributing machinery of the country in such a manner that we may restore its functions to as nearly as may be a pre-war basis, and thus eliminate so far as may be the evils and failures which have sprung up. And at the same time we propose to mobilize the spirit of self-denial and self-sacrifice in this country in order that we may reduce our national waste and our national expenditure.

In speaking as he did Mr. Hoover was voicing not only his own opinions but those of the Administration, whose chief advisor on food matters he had become. In thus declaring against anything like a compulsory rationing of the population or even the fixing of prices generally, it was nevertheless recognized that legislation was desirable having for its purpose to prohibit during the war certain acts and to confer upon the Government enlarged powers to carry out its determinations in re-



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spect to food control and coerce the minority who might be unwilling loyally to comply with the Government's plan. Such legislation was secured by the passage of two Acts, both approved on August 10, 1917, and entitled, respectively, "An Act To provide further for the national security and defense by stimulating agriculture and facilitating the distribution of agricultural products," and "An Act To provide further for the national security and defense by encouraging the production, conserving the supply and controlling the distribution of food products and fuel."

The first of these Acts had for its special purpose the enlargement of the powers of the Department of Agriculture and the grant to it of increased appropriations with which to carry on its work. It thus authorized the Secretary of Agriculture

to investigate and ascertain the demand for, the supply, consumption, costs, and prices of, and the basic facts relating to the ownership, production, transportation, manufacture, storage and distribution of foods, food materials, feeds, seeds, fertilizers, agricultural implements, and machinery and any article required in connection with the production, distribution, or utilization of food,

and made it obligatory upon all persons, subject to a heavy fine in case of refusal, to answer all inquiries regarding such matters addressed to them. Appropriations aggregating over \$10,000,000 were made to the Department of Agriculture to meet the expenses of such inquiries, to pay the salaries of two additional Assistant Secretaries that were provided for by the Act, to extend its work in eradicating animal and vegetable diseases, and to take other steps having for their purpose the encouragement of increased production of food products.

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If necessary, the Secretary of Agriculture was authorized to grow seeds and furnish them to farmers at cost. Finally, the President was authorized to direct any agency or organization of the Government to coöperate with the Secretary of Agriculture in carrying out the purposes of the Act and to coördinate their activities so as to avoid any preventable loss or duplication of work. This Act, it was provided, should continue in force not later than the beginning of the next fiscal year after the close of the war.

The second of these Acts, known as the Food and Fuel Control Act, or the Lever Act, from the name of its author, was a much more important and radical measure. It had for its purpose to provide for the establishment of a system of rigid governmental control over almost all the processes involved in the production, distribution, and consumption of a large number of so-called necessities, the most important of which were foodstuffs, feeds, fertilizers, farm machinery, coal and other fuels, and all industries such as stockyards, elevators, etc., serving these economic interests, and to authorize the President to create such agencies and issue such orders and regulations as he deemed desirable for carrying into effect the purposes of the Act. This law is thus the organic act of both the Food and Fuel Administrations. An account of the latter is given hereafter. Here we will consider only those features of the Act that have to do with the control of agricultural and food interests.

In considering these provisions it is desirable to distinguish between those which are of a substantive character, that is, imposing duties and obligations upon the public, and those vesting powers in the President to take action to carry out the purposes of the Act. In respect to the first the Act made the following things illegal:

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1. Willfully to destroy any necessities for the purpose of enhancing the price or restricting the supply.

2. Knowingly to commit waste or willfully to permit preventable deterioration of any necessities in or in connection with their production, manufacture or distribution.

3. To hoard as defined in Section 6 of this Act any necessities.

4. To monopolize or attempt to monopolize either locally or generally any necessities.

5. To engage in any discriminatory and unfair, or any deceptive or wasteful, practice, or to make any unjust or unreasonable rate or charge, in handling or dealing in or with any necessities.

6. To conspire, combine, agree, or arrange with any other person:

(a) To limit the facilities for transporting, producing, harvesting, manufacturing, supplying, storing, or dealing in any necessities;

(b) To restrict the supply of any necessities;

(c) To prevent, limit or lessen the manufacture or production of any necessities in order to enhance the price thereof; or

(d) To exact excessive prices for any necessities.

7. To aid or abet the doing of any act made unlawful by this section.

8. To use any foods, fruits, food materials, or feeds for the production of distilled spirits for beverage purposes.

Severe penalties were prescribed by the Act for any infraction of these provisions, and provision was made for their enforcement through judicial proceedings.

In addition to subjecting the production, distribution and handling of necessities to the foregoing regulations the Act conferred large powers upon the President to do certain things for the purpose of carrying out the purposes of the Act. He was thus empowered:

1. To license the importation, manufacture, storage, mining or distribution of any necessities; to order any licensee to

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discontinue any storage charge, commission, profit, or practice found to be unjust or unreasonable, or discriminatory and unfair, or wasteful, and to enforce such order by revocation of license when necessary; or to find what was a just, reasonable, nondiscriminatory, and fair charge, commission, profit, or practice.

2. To requisition foods, feeds, fuels and other supplies necessary to the support of the Army or the maintenance of the Navy or any other public use connected with the common defense, and to requisition or otherwise provide storage facilities for such supplies, and to ascertain and pay a just compensation therefor.

3. To purchase, store, provide storage facilities for, and to sell at reasonable prices, wheat, flour, meal, beans, and potatoes.

4. To requisition and take over, for use or operation by the Government, any factory, packing house, oil pipe line, mine or other plant, or any part thereof in or through which any necessities are or may be manufactured, produced, prepared, or mined, and to operate the same whenever necessary to secure an adequate supply of necessities for the support of the Army or the maintenance of the Navy or for any other public use connected with the common defense.

5. To prescribe regulations governing, or wholly or partly prohibit, operations, practices and transactions at, on, in or under the rules of any exchange, board of trade or similar institution, or place of business, to prevent, correct or remove undue enhancement, depression or fluctuation of prices, injurious speculation or unjust market manipulation or unfair and misleading market quotations of the prices of necessities.

6. To determine and fix and to give public notice of what under specified conditions is a reasonable guaranteed price for wheat in order to assure producers a reasonable profit, whenever he deemed that an emergency exists requiring stimulation of the production of wheat.

7. To prescribe, and give public notice of the extent of the limitation, regulation, prohibition or reduction of the use of foods, fruits, food materials or feeds in the production of malt or vinous liquors for beverage purposes or reduction of the alcoholic content of any such malt or vinous liquor, whenever he finds such action is essential to secure an ade-

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quate and continuous supply of food or that the national security and defense will be subserved thereby.

8. To commandeer any or all distilled spirits in bond or in stock at the date of the approval of the Act for redistillation in so far as such redistillation is necessary to meet the requirements of the Government in the manufacture of munitions and other military and hospital supplies, or in so far as such redistillation would dispense with the necessity of utilizing products and materials suitable for foods and feeds in the future manufacture of distilled spirits for the purposes enumerated.

9. To make such regulations and to issue such orders as are essential effectively to carry out the provisions of this Act.

The most significant feature of the Act from the standpoint of administration is that it made no attempt itself to set up an administrative machinery for the enforcement of its provisions, but vested full authority in the President to take such action in this respect as he saw fit. It thus provided:

That in carrying out the purposes of this Act the President is authorized to enter into any voluntary arrangements or agreements, to create and use any agency or agencies, to accept the services of any person without compensation, to cooperate with any agency or person, to utilize any department or agency of the Government, and to coordinate their activities so as to avoid any preventable loss or duplication of effort or funds.

On the same day that this Act became law, August 10, 1917, the President issued an executive order creating an independent service for the administration of those features of the law having to do with food products and related industries under the name of the United States Food Administration and designated Herbert C. Hoover as its head, with the title of United States Food Administrator. Mr. Hoover had previously won great distinc-



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tion through the skill displayed by him in handling the work of the Commission for Relief in Belgium, of which he was and continued to be the head. He had also been called in by the President as his chief advisor in respect to handling the food situation, and was primarily responsible for the framing of the provisions of the Food and Fuel Control Act.

As the result of this action the Government was provided with two agencies for the handling of all matters having to do with the production, distribution, and consumption of food products—the Department of Agriculture and the newly created Food Administration. Little or no confusion or duplication, however, resulted from this utilization of two, instead of one agency, since it was possible to distinguish with sufficient clearness the fields of activities of each. As the Secretary of Agriculture pointed out in an address before the Association of American Agricultural Colleges and Experiment Stations in convention in Washington on November 14, 1917:

In a broad way it is agreed that the prime function of the Department of Agriculture shall be the stimulation of production, the conservation of products on the farm through all the normal and approved processes, the promotion of better marketing and the distribution of products from the farms to the markets, the prosecution of the work in home economics along usual lines, the dissemination of information and the extension of all these activities as authorized by law.

In a similar way the principal function of the Food Administration is the control and regulation of commercial distribution of foods, that is, of products which have reached the markets, are in the channels of distribution or in the hands of consumers, their conservation by consumers, the elimination of waste, and the handling of foods and feeds in the market by legal means through its regular officials as well as through its volunteer agencies.



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In the main the Department of Agriculture deals with all the processes of farming up to the time products reach the market until they are in the requisite form for consumption and are available for the purpose. At this point the Food Administration enters and exercises its wide powers of regulation, direction and suggestion.

In point of fact the two services worked in close co-operation with each other and little or no friction between them took place.

Although it was not until August 10, 1917, that the Food Administration was established on a definite legal basis, Mr. Hoover as early as May 19, 1917, had been requested by the President to act as Food Administrator for the purpose of doing what he could under then existing laws to mobilize the food resources of the country for war purposes. In accepting this appointment Mr. Hoover announced that he would administer his office in accordance with the following five principles:

*First.* That the food problem is one of wise administration and not expressed by the words "dictator" or "controller," but "food administrator."

*Second.* That the administration can be largely carried out through the coördination and regulation of the existing legitimate distributive agencies of the producers, distributors, and consumers.

*Third.* The organization of the community for voluntary conservation of foodstuffs.

*Fourth.* That all important positions, so far as may be, shall be filled with volunteers.

*Fifth.* The independent responsibility of the food administration directly under the President, with the coöperation of the . . . Department of Agriculture, the Department of Commerce, the Federal Trade Commission and the railway executives.

Although the Food and Fuel Control Act gave him powers of the most drastic character, Mr. Hoover con-

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tinued to perform his duties in so far as possible in accordance with these principles. The keynote of his administration, in a word, was that of making an appeal to the patriotism of the farmers and the consuming public voluntarily to do each his part in carrying out a food production and conservation programme as worked out by the Food Administration, and of bringing into play the compulsory features of the law only after all other efforts had failed. This programme of the Food Administration involved a number of activities which, for purposes of consideration at least, can be fairly well distinguished.

Among these activities first mention, logically, should be made of stimulating production. The need for a maximum production of food products of all kinds has already been pointed out. Responsibility for the securing of this fell primarily upon the Department of Agriculture. The Food Administration, however, was able to second the efforts of that organization in many ways. Especially were efforts made through the use of various means of propaganda to encourage the utilization of all land available for cultivation, the planting of small gardens, and the selection for planting of those crops of which there was the greatest need.

A second activity complementary to this and directly within the province of the Food Administration was the promotion of conservation or economy in the consumption of food products. This meant the organization and conduct of a great campaign of public education. Regarding this feature of its work the Food Administrator, in his annual report for 1917, said:

The first requirement for effective food conservation was to bring home to the people of the United States the vital necessity of reducing the American consumption and waste of cer-

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tain commodities in order to assure an enlarged supply of these exportable products. For this purpose, it was necessary to conduct a widespread educational campaign through the press, schools, public speaking, etc., which would reach all parts of the country and bring home its message to every individual.

The primary object of that part of the conservation campaign which deals with consumption is to bring about an intelligent understanding of the foodstuffs most needed for export and substitutes therefor and methods of reducing waste. Among other methods adopted in an endeavor to reach every home in the United States with definite instructions as to the best methods of conserving food without interfering with the proper nourishment of the family was a campaign carried on in each state under the direction of the Federal Food Administrator for that state, by which pledges were taken from more than 11,000,000 homes to observe the suggestions of the Food Administration as to food serving and food use.

The Division of Publication and Printing of the Food Administration has been built up to supply not only this information but also to supply the demand for information as to the rules and regulations made by the Food Administration and the reasons therefor.

The Speaking Section of the Division of Food Conservation directs the efforts of and furnishes material for the volunteer public speakers who are preaching the doctrine of food conservation in the community centers, the public schools, churches, fraternal orders, patriotic societies and the other already organized forces of society.

Through the appeal to hotels and restaurants, clubs and steamships, the coöperation of these public eating places has been secured.

The foregoing gives the most general idea of this campaign of education. The Food Administration did not content itself with a general appeal but distributed broadcast a vast amount of literature, carefully prepared by the highest experts in the country, giving specific instructions in respect to what constituted a well

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balanced diet; what articles of relative abundance could be substituted for those which on account of their inadequate supply it was desirable to conserve; how foods could be prepared to avoid waste; the best manner of drying, canning, or otherwise preparing fruits and vegetables to the end that all perishable products should be fully utilized; and scores of other analogous features having to do with the consumption and conservation of food products.

There can be no question as to the effectiveness of this work. There were probably few families that did not do something in the way of responding to the appeals of the Food Administration and many did a great deal. Especially did the hotels, restaurants, and other public eating places respond loyally to the appeals made to them. A feature which it is important to note is the great permanent good that this campaign has accomplished in the way of educating housewives and others in respect to the proper preparation of food for consumption, the steps to be taken to eliminate waste, and the advantages accruing through the planting of gardens and the preserving of food products. The good thus accomplished, apart from all contributions made to meeting immediate difficulties, far outweighs the cost that was entailed.

Although it was the desire of the Food Administration to rely as far as possible upon this method of securing economy in the consumption of food products, the situation in respect to certain commodities, and especially wheat flour and sugar, became such that recourse had finally to be had to measures of a more stringent character. Millers thus were required to convert a larger part of the wheat berry into flour than had been their practice in the past. They or bakers

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were required to mix with this flour a certain percentage of other classes of flour, such as rye, cornmeal, potato meal, etc. Finally, a modified form of rationing had to be introduced through the issue and enforcement of regulations prohibiting the sale of more than a certain quantity of wheat flour or of sugar at one time, or more than a certain quantity per week to the same family. Such a limitation of consumption, however, was far different from that enforced in other countries through the use of rationing cards.

Although much could be, and was, done in the way of increasing production, on the one hand, and restraining consumption, on the other, the fact still remained that the supply of certain classes of food products was inadequate to meet all demands. This being so, it became necessary for the Food Administration to take action that would prevent the prices of these articles being run up to excessive figures and insure that the supply that was available should be properly distributed. The basis for a system of control that would accomplish these purposes was laid in the establishment of a licensing system that was gradually extended until it included almost all classes of dealers and agents handling food products. In accordance with the provisions of the law this system was established through proclamations issued by the President.

The first of these proclamations was issued on August 14, 1917, and required the licensing on or before September 1, 1917, of all persons, firms, corporations, and associations engaged in the business of either storing or distributing wheat or rye, as owners, lessees, or operators of warehouses or elevators, and all those engaged in the business of manufacturing any products derived from wheat or rye, except those operating mills and manu-

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facturing plants of a daily capacity of 100 barrels or less and farmers and coöperative associations of farmers. Approximately 19,000 elevators and 2,500 milling licenses were issued under this proclamation. The number of mills licensed was still further extended by the President's proclamation of October 8, 1917, by which all persons, firms, corporations, and associations engaged in the business of operating elevators for the storage of corn, oats, or barley and those milling any of these commodities, except those mills operating only plants of a daily capacity of less than 75 barrels, were required to secure licenses.

The second proclamation, issued on September 7, 1917, related to importers, manufacturers, and refiners of sugar and manufacturers of sugar syrups and molasses, and required that all engaged in such work should secure licenses by October 1, 1917. Under this proclamation 447 licenses were issued.

The third proclamation, issued on October 8, 1917, was of the most far-reaching character. It applied to importers, manufacturers, storers, and distributors of 64 staple commodities and required that they should secure licenses by November 1, 1917. Exceptions were made in the case of operators of elevators and manufacturers and importers who had already been licensed, common carriers, farmers, etc., and establishments the production or capacity of which was below specified amounts. Millers of flour were required to distribute their output through their customary channels and market it in such a way that each city, town, and district should receive its usual proportion. Wholesalers were required not to buy more than 70 per cent. of their purchases of flour from millers as based on their purchases for the corresponding months of the preceding



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year, and their sales to retailers had to be in the proportion of one pound of wheat flour to one pound of other cereals. Under this proclamation 43,000 licenses were issued before January 1, 1918, and it was estimated that between 30,000 and 35,000 remained to be issued.

A fourth proclamation was issued on November 7, 1917, and required all manufacturers of bakery products to secure licenses by December 10, 1917. This covered all persons, firms, etc., who manufactured for sale bread in any form, cake, crackers, biscuits, pastry, or other bakery products, including hotels, restaurants or other eating places, and clubs who served bread or other bakery products of their own baking, excepting those whose consumption of flour or meal was less than 10 barrels a month. Regulations made under this proclamation prohibited resales, buying or selling for price manipulation, and acceptance of returns; fixed weights for loaves after baking; and limited the proportion of certain ingredients. Less frequent deliveries of bakery products and sales direct from wholesalers to retailers were urged. Under this proclamation approximately 23,000 licenses had been issued by January 1, 1918, and it was estimated that between 30,000 and 35,000 remained to be issued.

On November 15, 1917, the President issued a fifth proclamation, requiring the procurement of licenses by manufacturers, importers, storers, and dealers in white arsenic and insecticides containing arsenic by December 10, 1917. Under this 60 firms were licensed by January 1, 1918, with between 300 and 400 remaining to be licensed.

On January 10, 1918, the President issued a proclamation requiring the licensing on or before February 15, 1918, when not already licensed, of industries engaged

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in the catching and distributing of salt-water fish; the canning of peas, dried beans, corns, tomatoes, salmon, or sardines when the gross production amounted to more than 500 cases per annum, except boys' and girls' canning clubs; manufacturing tomato soup, tomato catsup, or other tomato products; manufacturing alimentary paste; manufacturing any products derived from wheat or rye, except retailers whose gross sales of food commodities did not exceed \$100,000 per annum; and common canners and farmers, gardeners, and coöperative associations of farmers and gardeners.

On January 30, 1918, the President by proclamation extended the licensing system over bakers who used as little as three barrels of flour and meal a month and all persons and firms engaged in the business of importing or distributing green coffee.

Finally, on November 2, 1918, the President issued a proclamation covering under the licensing system all persons, firms, and corporations engaged in importing, manufacturing, or distributing casings made from the intestines of animals; milling corn, oats, barley, or rice; manufacturing near beer; importing, manufacturing, and distributing oat flour, raw corn flakes, buckwheat or buckwheat products; operating warehouses or other places for the storage of food or feed commodities for hire; and all persons engaged in the business of importing, manufacturing, or distributing a large number of specified animal and vegetable fats and oils. Among the industries so brought under the licensing system, the most important was probably that of warehouses for the storage of food and feed articles; up to that time only cold-storage plants had been under the system.

The purpose and effect of this licensing system was to subject all of the lines of business covered by it to such

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regulations as the Food Administration might from time to time establish, since no person was granted a license who did not agree to abide by such regulations, and thereafter such regulations could be enforced by threatening to cancel or cancelling the license of a licensee failing to observe them. In practice many offending firms were given the alternative of paying fines, making contributions of a fixed amount to some war purpose, or shutting down for a given number of days or weeks, or having their licenses cancelled.

The establishment of the license system was thus but the first step in the establishment of control by the Food Administration. This act was followed by the formulation and promulgation of the conditions to be observed by each class of food importers, manufacturers, storage men, or dealers. These regulations were in all cases worked out so far as possible in conference with representatives of the interests affected. In respect to this feature of his work the Food Administrator in his annual report for 1917 said:

The first step taken toward this control was to establish separate divisions to deal with each of the great staple commodities. It has been sought to secure the best expert knowledge of the conditions in the business with which each division is concerned through men specially selected, and by calling to Washington representatives of the business concerned for consultation. Appeals were made to them on grounds of patriotism, to effect as far as possible the objects of the Food Administration, and to obtain from them their expert knowledge and suggestions as to the best method of eliminating speculation, excessive profits, and other unfair practices, and to secure more economic distribution. This appeal to the business men of the country has met with an enthusiastic response. It has obtained for the Food Administration the coöperation of the great majority of food manufacturers and dealers, without which it would be prac-

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tically impossible to secure the immediate and constructive action required.

After obtaining the views of the trade, the Food Administration has worked out independently the necessary system of food control as applied to the particular business. The plan has sometimes been in accord with the suggestions of the trade, and in other cases it has been necessary to disregard their suggestions and adopt other methods. When the plan has been finally worked out it has been put into effect either through voluntary agreements or through the licensing system authorized by Section 5 of the act. The agreements have proved of the utmost value in establishing the necessary co-operation. The licensing system, however, is the backbone of all control. Without compulsion there will always be a few slackers in every trade who will profit by the patriotism of the majority and prevent any effective control.

The importation, manufacture and distribution of all staple food products have now been placed under license and regulations have been prescribed along the necessary lines. From time to time it will probably be necessary to license other commodities and other trades but the field is so extensive that it has been found necessary to take up the more essential commodities first and leave the development of plans for others until a later date.

An important features of this licensing system was the establishment, through the rules and regulations governing the issue of licenses, of a control over profits. Although no power was granted to the President except in the case of wheat, which will be considered hereafter, to fix prices directly, he was given authority to prevent the making of excessive profits and thus indirectly to regulate prices. Thus, Section 5 of the Food and Fuel Control Act provided that:

Whenever the President shall find that any storage charge, commission, profit or practice of any licensee is unjust or unreasonable, or discriminatory and unfair, or wasteful and shall order such licensee, within a reasonable time fixed in the order, to discontinue the same, unless such order, which shall

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recite the facts found, is revoked or suspended, such licensee shall, within the time prescribed in the order, discontinue such unjust, unreasonable, discriminatory and unfair storage charge, commission, profit or practice. The President may, in lieu of any such unjust, unreasonable, discriminatory, and unfair storage charge, commission, profit, or practice, find what is a just, reasonable, nondiscriminatory and fair storage charge, commission, profit, or practice and in any proceeding brought in any court such order of the President shall be deemed *prima facie* evidence.

The exercise of this power the President by executive order of November 27, 1917, vested in the Food Administrator. This order directed the Food Administrator in prescribing regulations for licensees:

To find that a just, reasonable and fair profit is the normal average profit which persons engaged in the same business and place prior to July 1, 1914, under free competitive conditions; to indicate, if he shall see fit to do so, what margin over cost will return such a just, reasonable and fair profit; and to take such legal steps as are authorized by said Act to prohibit the taking of any greater profit.

This power was effectively exercised by the Food Administrator. Although the cost of food products to the consumer increased greatly during the war, the rise was due primarily to increased cost of production and cost in transporting and handling these articles, and only in small part to unwarranted profiteering on the part of food producers, manufacturers, and dealers. It can hardly be doubted that had this control not been exercised, prices would have advanced far more than they did and that profiteering would have been rampant.

The Food Administration, however, came close to fixing the price of food products to consumers through the inauguration in June, 1918, of a plan by which standardized "fair price lists" were to be prepared periodi-



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cally by local boards or committees composed of representatives of the wholesalers, retailers, and consumers in each community, which lists were to be posted by all dealers where they could be easily seen by their customers. In announcing this plan the Food Administration said:

Each board will have detailed reports of actual wholesale prices and will ascertain fair margins of profit that should be made by the retailers. The final prices will be widely published. Newspapers in every city and county will be asked to coöperate by setting aside a particular position in a prominent place on the same day each week, running the lists with conspicuous headlines and interesting footnotes on the food problem and the use of substitutes for the foods most needed abroad.

Consumers will be asked to report to their food administrator any stores charging more than the announced prices. Investigations of these reports will give the Food Administration a basis upon which to work in separating the patriotic dealer from the profiteer. An indirect control over the retail stores may be exercised by cutting off supplies at the source — instructing licensed wholesale dealers to sever business relations with the firms which exact more than a reasonable charge.

Retail price reporters are being appointed in every county in the United States. They are expected to keep a close check upon charges made at the stores and to report to the local administrator all dealers not keeping within the limits prescribed in the "Fair price lists." Whenever investigation shows that any dealer has charged excessive prices the administrator will grant a hearing. If he cannot show a just cause for his failure to keep within the prices announced by the interpreting boards he will be punished. The Food Administration believes that with the operation of this standardized plan throughout the country it can assure the customers that the price they pay represents no more than cost of production plus reasonable costs and profits of necessary handlers.



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This system worked with great efficiency. It did not keep down rising prices, but it did insure equality of treatment of dealers and consumers and undoubtedly prevented excessive charges and profits by dealers inclined to make all they could out of the public's needs.

It has already been pointed out that the provisions of the licenses and of the rules and regulations governing their operation were in all cases carefully worked out by the Food Administration in conference with representatives of the several industries to be regulated. The actual work of issuing licenses was performed by a special Licensing Division. This section, however, did not concern itself with the enforcement of the rules and regulations after they were once issued. That duty was performed by other sections. The means employed in enforcing compliance with the rules and regulations were described by the Food Administrator in his annual report for 1917 as follows:

Every licensee is required to report at least monthly to Washington and his reports are carefully examined and tabulated, in order that any violation of the rules may be detected and exact information obtained as to the general condition of the industry.

These reports from licensees are received and tabulated by the Statistical Division. The information contained therein is arranged and collated in such a manner as to show the profits, overcharges, and speculation, if any, in the various trades. In addition to the information so obtained, the Statistical Division also collects data on the production, consumption, movement, and prices of food in this and in the allied and neutral countries and which it receives from existing governmental and trade agencies, and from an organization of several thousand voluntary reporters on retail prices in all parts of the country (which organization has been built up by the Statistical Division) and from miscellaneous sources.

Enforcement of the law and of the regulations rests in the

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Enforcement Section, acting independently of all Commodity Divisions, directing and coördinating the activities of the Federal food administrators and their assistants in the several states. Reports of violations are received from consumers, from other members of the trade, from the Federal food administrators and their assistants and from the Bureau of Chemistry in the Department of Agriculture which has kindly offered to lend their expert knowledge and experience in the enforcement of the Act. Investigations of the cases are then made, and, if justified, action is taken to revoke licenses. If criminal proceedings are thought necessary, recommendations to that end are made to the Department of Justice.

In controlling the distribution of food products the Food Administration had to consider needs not only in this country but in other countries as well. It thus had to secure information regarding the existence of food supplies throughout the world and the needs both of our allies and of friendly neutrals. The actual licensing of food imports and exports was a function of the War Trade Board. That body, however, acted in close co-operation with the Food Administration and almost wholly on its advice. Contact with the War Trade Board was secured through the representation the Food Administration had on that Board. Within the Food Administration all matters relating to import and export of food products were handled by a special Division of Exports and Imports.

Another special duty of the Food Administration was that of the coördination of the purchases of food products by the Army and Navy, the Red Cross, the Commission for Relief in Belgium, and the Allies. Under the contracts between the United States Treasury and the Allies all food purchases had to be made with the approval of or by the United States Government. This control was delegated to the Food Administration. All

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grains were purchased for the Allies by the Food Administration Grain Corporation, a body which will be described hereafter. All other food purchases for the Allies were made through the Division of Coördination of Purchases.

By executive order of October 28, 1917, the Food Administrator was authorized by the President to exercise the power vested in him to requisition any and all foods and feeds and storage facilities for the same that he might deem necessary for any public use connected with the common defense other than the support of the Army or Navy, and to ascertain and pay just compensation therefor. The possession of this power was of value to the Food Administrator, but it does not appear that actual use was made of it to any important extent.

Two articles of food — wheat and sugar — stood by themselves as offering problems of special gravity on account of their essential character and their inadequate supply. In respect to these the Food Administration felt called upon to take special action.

So acute was the situation in regard to the supply of wheat at the time the Food and Fuel Control Act was passed, that Congress wrote into the Act provisions conferring extraordinary powers upon the President to promote the production and to control the distribution of this commodity. He was thus empowered to fix a guaranteed price for wheat to growers, in order to stimulate them to the utmost efforts in production, and to purchase, store, and sell wheat, flour, and meal, as well as beans and potatoes, in addition to the other things he was authorized to do in respect to food products generally. One of the strong reasons for giving to the President the right to fix a guaranteed price for

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wheat was the fact that a large quantity of wheat was believed to be accumulating in Russia, which, if suddenly released by the opening of the Dardanelles or the ending of the war, would break the market. It was feared that many farmers would be deterred from planting wheat by apprehension of the occurrence of one or the other of these contingencies. There was a strong movement for Congress itself to fix a high guaranteed price. That body, however, finally yielded to the demand of the President that the power to fix the price be vested in him.

On August 30, 1917, the President announced that he had fixed a basic price of \$2.20 a bushel for standard wheat at Chicago, the prices of other grades and at other markets being adjusted to this basic price. This figure was fixed by the President on the recommendation of a special committee, of which Harry A. Garfield was chairman, which had been appointed by the President for that purpose. On February 25, 1918, the President announced that this price had been continued for the 1918 harvest with no essential alteration, and a similar announcement was made on September 2, 1918, in respect to the 1919 harvest.

A prime factor in the wheat situation was that the Food Administration, acting as the agent of the Government for the securing of wheat and wheat flour for itself for use by the Army and Navy and for meeting the needs of the Allies, was so large a purchaser as completely to dominate the market. The Food Administration in order to meet the situation thereby created was compelled to enter the business of purchasing, storing, distributing, and selling of wheat and wheat flour. Following the example of the United States Shipping Board in the creation of the Emergency Fleet Corporation, the

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Food Administration decided to create a special corporation for the performance of this function.

On August 14, 1917, the President accordingly issued an executive order directing the organization of a corporation, under the laws of the State of Delaware, to be known as the Food Administration Grain Corporation, to engage in this work of buying, storing, transporting, and selling grain. On the same day the incorporation of the Corporation was effected. The capital stock of the Corporation was fixed at \$50,000,000, divided into 500,000 shares of the par value of \$100 each, and the Food Administration was authorized and directed to subscribe for all of the stock of the corporation and to pay for it out of the appropriation of \$150,000,000 provided for by Section 19 of the Food and Fuel Control Act.

On June 21, 1918, a further executive order was issued by the President increasing the capital stock of the Grain Corporation to \$150,000,000 and directing the Food Administration to purchase on behalf of the Government such amount of such capital stock as was needed to supply the capital required by the Corporation for carrying on its operations. This order further directed the Corporation to offer or to stand ready to purchase at the guaranteed price all wheat tendered to it, and authorized the Corporation to borrow such sums of money upon the security of the wheat or flour owned by it as might be necessary to meet its financial needs. Later, on July 5, 1918, the Food Administration announced that it would extend its operations of purchase, storage, and sale of wheat and flour to all classes of cereals, and that for this purpose it had created a Cereal Division to have general charge of this work. This Division would continue, however, to make use of

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the Grain Corporation as its agent for the handling of all the financial transactions involved.

The administration of the affairs of the Corporation was vested in a Board of Directors of seven members, four of whom, including the Food Administrator, were named by the President, and the remaining three by the incorporators subject to change by and with the approval of the President. The office and principal place of business of the Corporation outside of the State of Delaware was located in New York City.

For the administration of its affairs the Corporation divided the country into 14 zones or districts, with headquarters at Baltimore, Buffalo, Chicago, Duluth, Galveston, Minneapolis, Kansas City, New Orleans, New York City, Omaha, Philadelphia, Portland (Oregon), St. Louis, and San Francisco. In each of these cities the Corporation had an agent who acted as a purchasing agent and also as the agent of the Food Administration in respect to the supervision of licensed elevators and millers.

The supply of grain to the mills and the distribution of flour was carried on by what was known as the Milling Division, an instrumentality established by voluntary agreement between the Food Administration and those engaged in the manufacture of flour. This Division had a "millers' committee" in each of eight milling zones, with headquarters established at milling centers within the zones. To protect millers from possible loss in the event that they should be required by the Food Administration from time to time to hold their stocks beyond a period of 30 days, the Grain Corporation entered into an agreement with them guaranteeing them against such loss. As a consideration for such guarantee, the millers agree to pay to the Grain Cor-



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poration one per cent. on all wheat purchased by them. The actual expenses of the Milling Division was supported by a charge of one-fourth of one per cent. paid to it by the Allies upon their purchases of flour, in which they had the service of the Division's organization in the distribution of orders for Allied exports. Voluntary agreements were made in certain sections of the country, notably on the Pacific Coast, by which the Grain Corporation assumed charges on wheat carried in country elevators and warehouses in return for an agreement to permit the Grain Corporation to direct the disposition of such wheat. The purpose of these agreements was to preserve wheat for mill reserves, and also to prevent the country dealer from lowering his price to the producer because of charges that might accrue on wheat awaiting car service.

The following additional statement of the method of operation of the Grain Corporation is taken from a mimeographed statement prepared by the Food Administration.

Weekly reports are received from all country elevators and all country mills showing the amount of wheat, rye, corn, oats, barley received each week, amount shipped each week, amount in store at the end of the week, and in the case of mills, amount ground of wheat and rye. A scale of prices is fixed at each of these markets, at which the Grain Corporation buys all wheat arriving. The relative markets reflect somewhat the freight differentials, and the price scale is adjusted to cover all grades and varieties of wheat, based on the Federal Standard of Grades authorized by Congress and prescribed by the Department of Agriculture.

Mills are supplied direct from country points by shipping directions given by our Manager, who by their tabulation of weekly reports know where the stock of suitable wheat is held, and with a traffic advisor, directs the movement with the least freight charge and least transportation burden. In such

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direct shipments the shipper collects direct from the mill and the payments do not pass through the Grain Corporation offices.

Milling of wheat is encouraged so that the export of wheat surplus will be in the form of flour rather than wheat.

Special care was taken to have all financial transactions properly recorded and reported. All books and accounts of the Grain Corporation were periodically audited by certified accountants and supervised by the corporate officers, and a monthly itemized report of the operations of the Corporation was made to Congress.

No authority was given by the Food and Fuel Control Act to fix a guaranteed price for sugar as was granted in the case of wheat. The necessity for stabilizing the price of this commodity, however, was almost as urgent as in the case of wheat and flour. This situation was met by the Food Administration in a variety of ways. First, and most important, it called into conference representatives of the sugar-producing interests in Louisiana, the sugar-beet producing states, Hawaii, Porto Rico, and Cuba, and made a successful appeal to them to agree upon a standard price for their sugar. It suspended all speculation in futures in the sugar market. Immediately upon the establishment of the Food Administration it made a detailed examination of the cost and profits of sugar refining, and upon the basis of this examination made an agreement with the refining interests in respect to the differentials to which they should be entitled over the price paid by them for raw sugar. The average differential prior to the war had been 85 cents per 100 pounds, but it had risen during the war to \$1.84. By the agreement made with the refiners this was reduced to \$1.30. On July 12, 1918, an-

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nouncement was made that the President had approved the formation of a corporation with a capital stock of \$5,000,000 under the name of the Sugar Equalization Board, the duties of which should be those of equalizing the cost of various sugars, securing better distribution of sugar supplies, and facilitating joint dealings with the Allies in foreign sugars and the adjustment of differentials in overseas freight rates.

The entire capital stock of this corporation was subscribed for in the name of the United States, and Mr. Hoover, the Food Administrator, was made Chairman of its Board of Directors. On October 24, 1918, the corporation, Mr. Hoover as Food Administrator, and the leading refiners of sugar in the United States other than the refiners of domestic cane and beet sugar entered into an agreement by which it was agreed that the refiners during the period from October 1, 1918, to December 31, 1919, would purchase their entire requirements of raw sugar of all kinds from the Equalization Board; that the latter would furnish and sell to the refiners their entire requirements of raw sugar during this period at 7.28 cents per pound; and that the refiners would charge not more than 1.54 cents net per pound for their refining margin. The effect of this agreement was to stabilize the price of sugar refined from Cuban raw sugar at the same price agreed upon with the Louisiana cane growers and the growers of beet sugar, namely nine cents per pound wholesale. Between the price paid for the Cuban raw sugar and the price at which it was to be sold by the Equalization Board there was a margin of from 25 cents to 38 cents per hundred pounds which, after discharging the liabilities of the Equalization Board, will be turned into the Treasury of the United States as miscellaneous receipts. The legality of this agreement,

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especially from the standpoint of not coming within the provisions of the Sherman Anti-Trust Act, was sustained in an opinion of the Attorney-General of the United States rendered at the request of Mr. Hoover.

It is hardly necessary to say that with the signing of the armistice the need for rigid control over the distribution and consumption of food products in the United States largely passed away, with the result that the Food Administration at once entered upon the work of cancelling the restrictions in force. The problem of supplying most of the countries of Europe, and especially Russia, Poland, the Balkan and the new Slav states with the food products required by them, continued, however, to be acute. The Food Administration, therefore, directed its attention largely to this phase of its work. On February 24, 1919, Congress passed an Act entitled "An Act Providing for the relief of such populations in Europe and countries contiguous thereto outside of Germany, German Austria, Hungary, Bulgaria and Turkey as may be determined by the President as necessary," by which an appropriation of \$100,000,000 was made for the purchase and sale of food products to the countries named. By an executive order of the same date the President vested in Mr. Hoover, as Director-General of the American Relief Administration, the carrying out of the provisions of this Act. The order provided that he should have "full power to determine to which of the populations named in said Act the supplies should be furnished and in what quantities and further to arrange for reimbursements so far as possible as in said Act provided."

In carrying out his duties under this order Mr. Hoover worked in close coöperation with the Supreme Council

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of Supply and Relief for Extending Aid to the Needy Civilian Population of the Europe that had been created by the Allies, and Mr. Hoover and Norman H. Davis were appointed by the President as the American representatives on that body. Mr. Hoover was furthermore designated as Director-General of Relief or head of this body. To the United States thus fell the chief responsibility for handling all matters connected with the supply of food products to, as well as the relief generally of, the needy civilian population of Europe. This is a work which will have to continue for an indefinite period of time.

In concluding this account of the Food Administration it is important to call attention to what may be deemed its most fundamental feature. In making provision for the exercise of public control over the distribution and consumption of food products the Government had a choice between two systems: that of providing for a system of rigid legal control, to be exercised through a vast bureaucratic organization; and that of appealing to the patriotism of the people voluntarily to acquiesce in such measures of restriction as the Government declared to be necessary to meet conditions. Its decision was in favor of the second system. It had before it the experience of Germany and Austria and of its allies, England and France, and it was not entirely satisfied with the results that had been attained. Especially did it desire if possible to avoid the introduction of anything partaking of the nature of a system of food ration cards. Although large powers were conferred upon the President, and through him upon the Food Administration, the policy was pursued of keeping these powers in the background and of making use

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of them only when absolutely necessary. The most striking feature of the whole system as actually administered was the extent to which the effort was made to fix conditions by agreements voluntarily entered into with the Food Administration by manufacturers and dealers; to secure the voluntary assistance of persons technically familiar with the conditions to be met; and to rely upon the voluntary compliance on the part of the consuming public with such restrictions as the Food Administration should from time to time declare to be necessary. The extent to which this voluntary cooperation on the part of the public was secured is one of the most remarkable features of the war. Such control as was exercised was exerted upon the manufacturers and dealers rather than upon the consumers. The whole vast field service of state and local food administrators rested largely upon a basis of voluntary service without compensation, and many of the force at Washington, including the Food Administrator himself, gave their services gratuitously or for but a nominal compensation. It is, of course, recognized that conditions were not so acute in this country as elsewhere, and that had they been equally acute, a more rigid bureaucratic administration of food-control measures might have been necessary. It was nevertheless an act of wisdom to have recognized this difference and not to have considered recourse to the latter system until it was imperatively necessary.



## CHAPTER XII

### THE MOBILIZATION OF FUEL

Analysis of the fuel problem—First attempts to meet the situation by the Committee on Coal Production of the Council of National Defense—Repudiation of its price agreement by the Secretary of War—Powers of control derived from Congress—The Food and Fuel Control Act—Creation of the United States Fuel Administration under Harry A. Garfield—Its functions and activities—In the stimulation of production—In the adjustment of labor disputes—In the fixing of prices through State Fuel Administrators and local coal committees—In the control of distribution and apportionment through zoning, priorities, and licensing—In the promotion of economy and efficiency in consumption—Control of fuel oil, gasoline, and other fuels—Removal of restrictions after the armistice.

The necessity for the immediate assumption by the Government of control over the production, distribution, and consumption of coal and other fuel was, if anything, even more imperative than in the case of food. Coal, on account of its bulk and its deterioration when exposed to the air, is a commodity that cannot be stored to advantage. Practically all industrial plants are dependent upon the steady receipt of coal for their current needs; only to a slight extent can they stock up for the future. The same is true to an almost equal degree of domestic consumers. Consequently the greater part of the coal as mined must be immediately placed on cars for transportation to the place of consumption. In no small degree the ability of mines to produce coal is thus controlled by the ability of the railroads to furnish cars for the prompt removal of coal from the mines to consumers.

On our entrance into the war everything conspired to

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make the coal situation a difficult one. The demand for coal was enormously increased to meet the requirements of the new munitions factories and the increased activities of the railroads and shipping. The railroads did not have an adequate number of cars and locomotives to meet the demand thrown upon them, and such as they had they could not use effectively because of the congestion that took place at eastern ports and other terminals. Labor was difficult to get because of the draft on the available supply for the recruitment of the Army and the Navy and the personnel of the shipyards and munitions plants. On top of this came one of the severest winters the country has ever experienced. Excessive cold and snow not only called for a larger consumption of coal for heating and steaming purposes, but hampered greatly the ability of the railroads to handle their trains.

The situation was thus one of extreme gravity, and it tended steadily to become worse. The whole problem of coal supply was like a chain, the breakage of a single link of which meant disaster. It could not possibly adjust itself. With an inadequate supply prices tended to soar, and there was no assurance that the industries most in need of fuel would get it unless the industry was subjected to rigid control. How critical the situation was may be seen from the fact that the Federal Trade Commission, which made an investigation of the coal industry in response to a resolution of Congress, recommended in a report made to the Senate<sup>1</sup> on June 19, 1917, that the production and distribution of coal and coke be conducted through a pool in the hands of a Government agency, and that the producers of various

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<sup>1</sup> Senate Document No. 70, 65th Congress, 1st Session.

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grades of fuel be paid full cost of production plus a uniform profit per ton, with due allowance for quality of product and efficiency of service.<sup>2</sup>

An attempt to meet this situation was first made by the Council of National Defense, which early in May, 1917, appointed a Committee on Coal Production with Francis S. Peabody as Chairman. This Committee at a conference with coal operators held in Washington June 28, 1917, at which members of the Council of National Defense and the Federal Trade Commission were present, reached an agreement fixing the price at which bituminous coal should be furnished at \$3 a ton. This agreement was immediately repudiated by the Secretary of War, who, as Chairman of the Council of National Defense, wrote under date of June 30, 1917, to the Director of the Council calling attention to the fact that the Council was a purely advisory body and as such had no power to fix prices or to perform any other act of an administrative character, and stating that in his opinion the price agreed upon was "exorbitant, unjust and oppressive."

This difference between members of the administration attracted considerable attention, and served to emphasize all the more strongly the need for some organ that should have positive powers not only to fix prices, but to take the other action required to meet a situation which was constantly growing more acute. Provision for the creation of such an organ and the exercise of such powers was made by the Food and Fuel Control Act of August 10, 1917, an account of the passage of which

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<sup>2</sup> For a more detailed analysis of the coal situation see, in this series, George Otis Smith, *The Strategy of Minerals*.

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has been given in our consideration of the Food Administration. This Act provided for the exercise by the Government of powers of control over the production, distribution, and consumption of coal and other fuels which were even more drastic than those granted for the control of food products. All the powers conferred upon the President to license food industries, requisition food supplies, purchase, store, and sell food products, issue regulations to prevent the charging of excessive prices and speculation in food articles, take over and operate plants for the manufacture or handling of food products, etc., which have been enumerated in our account of the Food Administration were likewise granted to the President in respect to fuels. In addition he was expressly authorized, whenever in his judgment the efficient prosecution of the war required it, "to fix the price of coal and coke wherever and whenever sold, either by producer or dealer, to establish rules for the regulation of and to regulate the method of production, sale, shipment, distribution, apportionment or storage thereof among dealers and consumers, domestic or foreign." In case of failure by any producer or dealer to conform to any such regulation, he was authorized to take over the plant or business of such person and operate it. Enlarged powers were also granted to the President, acting through the Federal Trade Commission, to prosecute inquiries regarding the cost of producing coal and coke and to compel all persons to produce their books, records, and accounts and to furnish such other information as might be needed in making such investigations. In broad terms the Government was thus given practically plenary powers over the whole industry of the production, distribution, and consumption of coal and coke even, to the extent, if necessary,

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of taking over the industry and operating it as a Government undertaking.

A few days after the passage of this Act the President by executive order dated August 23, 1917, created the service of the United States Fuel Administration, and designated Dr. Harry A. Garfield, then President of Williams College, as its head, with the title of United States Fuel Administrator. The appointment to this office of a man who was not directly concerned with the coal business gave rise to some criticism at the time and subsequently. There can be no question, however, regarding the energy and courage with which Dr. Garfield performed the various duties of his office.

An analysis of the functions of the Fuel Administration shows that it had to concern itself with the following matters: (1) the stimulation of production; (2) the adjustment of disputes between mine operators and their employees; (3) the fixing of prices; (4) the control of distribution and apportionment; and (5) the taking of steps to secure economy in consumption. In all five of these fields the Fuel Administration was extremely active.

In respect to the first, constant appeals were made to operators and miners to increase their output; the opening of new mines was encouraged, and every effort was made to have operators adopt the best devices and means for efficiency in operation. In regard to the second, the Fuel Administrator appointed on his staff representatives of the operators and of the miners with the duty of advising him in regard to all labor matters and of taking the action required to adjust all disputes that might arise. Especial efforts of course were made to avoid strikes. To this end the Fuel Administrator

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issued on November 5, 1917, an order in which he declared that:

To further assure continuous and increased production of coal during the period of the war the United States Fuel Administrator directs that no independent action be taken by either the operators or mine workers to force any settlement in dispute without submitting the matter in controversy to the United States Fuel Administrator. This applies to all districts whether joint relations have been established or not. Where joint relations have been established the regular machinery prescribed in the contract for adjustment of disputes shall first be used and remedies exhausted. Work at the mines shall continue without interruption pending the final settlement of the question in the manner indicated.

The most important step taken in this field, however, was the securing of an agreement between the operators and the United Mine Workers of America that every wage agreement should have written into it a penalty clause by which both parties agreed, subject to the imposition of a penalty, not to interrupt operations pending any examination of questions involving the fixing of prices and wages. This clause, having been adopted by the two parties, was made a condition of the wage increases provided for in the President's order of October 27, 1917. Finally, in August, 1918, a general agreement was reached between the Fuel Administrator, the mine operators, and the miners in respect to the principles that should govern in the adjustment of all disputes arising between operators and their employees. In a statement given to the public on August 25, 1918, the Fuel Administrator stated that his understanding of this agreement was:

(a) That no strike shall take place pending the settlement of any controversy until the dispute has been reviewed and decided by him.



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(b) That recognition of the unions shall not be exacted during the continuance of the war, except where now recognized by collective bargaining.

(c) That when, by joint contract between employer and employed, machinery is provided for the settlement of controversies, the United States Fuel Administrator shall not be required to intervene or to mediate until such means have been evoked and the remedy exhausted without reaching adjustment.

(d) That when the United States Fuel Administrator intervenes, substantially, the principles, provisions and practices laid down in the Maryland and Upper Potomac settlement of May 6, 1918, shall be accepted by the workers and employers and their chosen representatives as sufficient.

Especially he declared that the principles upon which he had insisted and would continue to insist were:

(a) That employers will be required to relinquish the right to discharge employees because of affiliation with labor unions.

(b) That employers will be required to recognize the right of their employees to organize by peaceful methods that do not interrupt production.

(c) That the so-called automatic penalty clause now in force, being regarded by mine workers as a cardinal principle of collective bargaining during the continuance of the war, will be included in all agreements as a condition precedent to the allowances of increased price permitted to operators.

(d) That where the union shop now exists the same shall continue, and where union and non-union men work together the continuance of such conditions shall not be deemed a grievance.

In general it may be said that most of the problems of labor connected with the prosecution of the war were successfully met under the foregoing arrangements. Towards the end of 1918, however, it became apparent that the coal miners, and especially those engaged in mining anthracite coal, were becoming restive, and that something should be done in the way of raising their

wages as an offset to the rising cost of living. The Fuel Administration accordingly worked out a careful plan for the readjustment of the wages of anthracite coal miners which it laid before a Conference of National Labor Adjustment Agencies which was summoned to meet at Washington in October for its consideration. In approving the plan thus laid before it, the Conference expressed the opinion that there was great need that the whole matter of the conditions of anthracite mine labor should be subjected to thorough study with a view to taking steps for the stabilization of labor conditions in that important industry. It thus said:

One general aspect of the anthracite situation was made clear in our meetings which we deem very pertinent for the consideration of the Fuel Administration. It appears that there is lacking the basis for scientific knowledge in regard to some of the underlying facts of the industry, upon which issues as to wages and output must finally be decided. Therefore, representatives of the mine workers, as well as of the operators, urged upon us that steps should at once be taken whereby systematic and authoritative information will be had for the future in regard to such fundamental question as comparative earnings, labor turnover, continuity of employment and sufficiency of output. It was agreed that we must create conditions which will assure greater continuity of employment, greater regularity of work, greater quantity of output, at the same time that we fully observe all those safeguards which should protect the workers in this hazardous industry. In a word the conditions of the industry must be stabilized. Therefore, the attitude of mind of those in the industry in regard to those conditions must be organized. As a necessary prerequisite we must have that basis of knowledge upon which alone we can act wisely and with justice.

In accordance with the plan approved by this conference a readjustment of wages in the anthracite coal industry was announced by the Fuel Administration on

October 31, to take effect on November 1, 1918. This readjustment, it was stated, had for its purpose to stabilize employment conditions with reference to the bituminous and other related industries, and embodied without change the recommendations for wage stabilization agreed upon by the miners and mine operators and approved by the Conference of National Labor Adjustment Agencies. In general terms it provided for an average wage increase of \$1 per day.

To meet the recommendation of the Conference of National Labor Adjustment Agencies that steps be taken to secure the essential facts and, if possible, to agree upon the fundamental principles that should lie at the basis of a permanent adjustment of employment conditions in the coal mines, the Fuel Administrator in conference with the mine operators and miners worked out an exceedingly interesting plan for putting the whole coal-mining industry upon a more satisfactory basis in respect to its relations to its employees, the public, and the Government. This plan was submitted in March, 1919, in referendum form to the members of the National Coal Association, an organization representing an annual output of approximately 400,000,000 tons of coal. The plan, as described in a statement published by the Fuel Administration in the *Official Bulletin* for March 24, 1919, is briefly as follows:

*First.* That all facts relating to the industry or any question touching it, such as the cost of living, the cost of production, labor conditions, transportation facilities, and other factors entering into the cost of coal be officially and accurately ascertained by some of the regular Government agencies, since the Government is the most appropriate representative of the public.

*Second.* That the public is one of the parties at interest, the other two being capital and labor, and that no action affecting

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any of the findings of fact be taken until all three parties, through their duly qualified representatives, shall have had an opportunity to consider and discuss the proposals.

*Third.* That the determination of facts, as outlined, and the formulation of administrative policy are two separate and distinct functions and therefore should not be performed by the same agency of the Government.

*Fourth.* That the findings of facts, thus proposed, should be submitted to a permanent department or commission of the Government. In this connection it is pointed out that the plan does not contemplate the creation of new agencies, but proposes to utilize existing permanent governmental organizations.

*Fifth.* That the President designate some Cabinet officer, or other appropriate official, to represent the public in considering any policy proposed, and that as advisers to the commissioner there should be an equal number, say three, of representatives of operators and miners. The function of the commission would be the consideration of all problems affecting the industry, and the formulation of policies to deal with such problems, the commission being a purely advisory body.

*Sixth.* That the commission shall make recommendations to the President, who would thus be placed in close relation with the industry and all factors entering into it, making for its prosperity or retarding its development.

Such a plan, modified to suit diverse conditions, it is conceivable, might be adopted not only by the coal industry, but by other basic industries of the country as well, in which event the Government would be placed in possession of intimate facts, figures, and findings, and recommendations in meeting industrial problems relating to any industry as such problems might arise. It does not conflict with the work now being carried forward by the Industrial Board of the Department of Commerce.

What the outcome of this ambitious proposal will be it is, of course, impossible at this time to say. It is of interest to note that the plan as formulated was laid before President Wilson and the effort to have it adopted received his approval.

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The power to fix prices was fully exercised by the Fuel Administrator, with the result that the price of coal at all stages of its handling, at the mine, in the hands of jobbers, and as charged by retailers, was determined by order. A beginning in this direction was in fact made by the President prior to the creation of the Fuel Administration. By executive order of August 21, 1917, the price of bituminous coal at the mine was provisionally fixed in each of the coal districts of the United States. This was followed by an order issued on the same day that the Fuel Administration was created, August 23, 1917, fixing provisionally the price of anthracite coal and jobbers' margins. The matter of fixing the price of coal to consumers was, by an order of the Fuel Administrator of September 7, 1917, turned over to the local fuel administrators and coal committees, provision for the creation of which was made by this order. This system of State Fuel Administrators and local coal committees constitutes one of the most important features of the whole system of administration that was built up by the Fuel Administrator for the performance of his duties. It cannot be better described than as set forth in the order of September 7, 1917, which reads:

The Fuel Administration realizes the acute need of making immediate arrangements to apportion the coal supply and regulate the retail sale of coal. To this end the following plan has been adopted:

The Fuel Administrator is immediately to choose a representative of the Fuel Administration in each State and Territory. He will also appoint in each State, in conjunction with the State representative, a committee of citizens, who, with the representative, will assume direction of the regulation of the sale of coal in that State. No person will be appointed, either as a State representative or on any of these committees,



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or any of the committees mentioned below, who is connected with the local coal industry.

Each State representative as soon as appointed will choose a committee of citizens to represent the Fuel Administration in each county of the State and in each city in the State having more than 2,500 population, or such other population as the State Fuel Administrator may determine.

The State representative and the State committee will be chosen directly by the Fuel Administrator with the approval of the President.

The county committees and the city committees will be chosen directly by the State representative.

The State committee will at once ascertain the amount of coal in the State available for use during the coming winter and the amount of coal needed to meet any deficiency in the supply, based on last year's consumption.

It will be the duty of the various committees to ascertain and report to the Fuel Administration the reasonable retail margin (*viz.*, the cost of local distribution and a reasonable dealers' profit to be allowed). This margin, when duly fixed by order, together with the cost at the mine named by the President, the transportation charge, and the jobber's commission, when sold through a jobber, will constitute the price to the consumer. The Fuel Administration will make public from its local committees in each community sufficient data to enable the individual consumer to ascertain for himself the established price.

These figures will be compiled with relation to local needs in order that the Fuel Administration may, if necessary, apportion the supply of coal with careful regard to the greatest existing needs. There are many communities today in which there is no supply of coal available at retail prices.

A very large proportion of the coal supply available for the coming winter is under contract. These contracts, which are allowed to stand for the present, were made prior to the President's proclamation and very largely limit the amount which may be placed on sale at retail prices based on the President's order.

It is absolutely essential, however, that a sufficient amount of coal be put on the market at once at these prices to meet the



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needs of domestic consumers. The Fuel Administration believes that this supply of coal can be made available and will be made available by voluntary arrangement between the operators and those with whom they have contracts, and thus make it unnecessary for the Fuel Administration to exercise or recommend the exercise of the powers provided in the Lever Act.

The price of coke was fixed by orders issued on November 9, 17, and 24, 1917.

In fixing prices the Fuel Administration proceeded upon the principle of first fixing the price of coal at the mine as determined by the cost of production plus a fair profit and then of determining the additions or margins that should be permitted to jobbers, wholesalers, and retailers in order to meet their costs and give them a reasonable profit. In determining the cost of production of coal at the mine the Fuel Administration availed itself of the large volume of data that had lately been collected and compiled by the Federal Trade Commission, and also made use currently of the services of the large staff of cost accountants and other experts of that body. The Federal Trade Commission in fact constituted the technical agent of the Fuel Administration in the performance of this important part of its duties.

Another feature of the policy in respect to price fixing was that of immediately fixing prices according to the best information available and then permitting appeal for rehearing when claim was made that injustice was done by such prices. This matter of the manner in which prices were fixed is so important and goes so directly to the heart of the coal problem that we are justified in reproducing from the first annual report of the Fuel Administrator the description there given of the method employed in redetermining prices. After setting forth the fact that the prices as fixed by the

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President's orders were provisional and subject to change upon cause being shown, the report continues:

The following course has been taken with each application for a change: complainants were required to submit costs on sheets prepared by the Federal Trade Commission, together with such statement of conditions as they may desire. The cost statements required covered the year 1916 as a whole and month by month for the year 1917, the object being to secure figures for the period immediately preceding the rapid advance in prices as a basis of comparison with the most recent monthly costs. The Fuel Administration availed itself of the services of the Federal Trade Commission in investigating and studying these cost sheets. The Commission's corps of expert accountants was placed at the disposal of the Fuel Administrator. All cost sheets and complaints were, on receipt, immediately sent to the Commission for preliminary examination and report. In the preliminary examination no attempt was made to verify the figures submitted by the complainants. A summary of the results, the original papers and all evidence submitted were returned to the Fuel Administrator. If the complaint appeared to be justified, as has usually been the case, further examination was made by the technical advisors of the Fuel Administration, and eventually the whole was laid before the Fuel Administrator for his decision. If it appeared that the prices fixed by the President permitted little or no profit to the operator in the field or section under consideration, the Fuel Administrator added a fair and reasonable amount to the prices fixed. This change, however, was provisional and depended upon the results of a subsequent examination conducted in the field. The Federal Trade Commission was asked to send accountants to the headquarters of the companies and there investigate the books and records and check up statements submitted. If necessary, engineers are sent to make a survey of the property with a view to ascertaining whether conditions are unusual and justify the requests made. Where desired public hearings may be arranged at this point in the investigation. It is obvious that the hearings should be on the ground and among those familiar with the region and the economic conditions surrounding the mines in question. Upon the re-

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sult of this investigation depends the final action of the Fuel Administrator.

Scarcely less in importance and of still greater urgency was the task of the Fuel Administration in regulating the distribution of the inadequate supply of coal available so that it would go where it was most needed. This involved the exercise of the great power of determining priorities. In the exercise of this power many factors had to be taken into consideration — the relative necessities of our domestic and export trade, the needs of the Government and private consumers, the needs of different localities, and, finally, the relative needs of different classes of industry.

One of the first steps taken to meet the problem here presented was a request to the Exports Administrative Board to prohibit the export of coal except under license. In seeking to solve the problem of the allotment or distribution of coal geographically, the most important step taken by the Fuel Administration was that of working out, in conjunction with the Railroad Administration, a system under which the whole country was divided into coal zones and districts. The purpose of this system was to eliminate the waste in labor and in the use of cars resulting from what is known as crosshauls, that is, the transportation of coal from one coal district to another in response to orders of purchasers. Under the zone system established each consumer received his coal from the district in which he was located or from which coal could be supplied him with the minimum length of haul. In announcing the establishment of this system in the *Official Bulletin* of March 23, 1918, the Fuel Administration said:

Heretofore coal has been distributed practically without re-

gard to the distance between the mine and the consumer. Under the zone system coal will be distributed to consuming territory under restrictions that will avoid, as far as possible, waste of transportation facilities, but nevertheless consistent with the maintenance of the greatest possible production and a proper coal supply to all coal users. Every effort, however, has been made to preserve long-established trade relations. . . . After prolonged conferences with coal producers, jobbers and consumers, and with the traffic and operating officials of the railroads, zones have been established so that coal supply shall be normally derived from mines relatively near, thus preventing these abnormal and wasteful transportation movements, ensuring more equal distribution of cars to the mines and more steady employment of mine labor. . . .

The general effect of the zone system is to restrict eastern coal to eastern markets and to fill the vacancy in the central and western states with nearby coal produced in those states. In addition to the saving in transportation the system will provide for the possible retention of something like 5,000,000 tons of coal for the eastern states which heretofore has gone west all rail. This tonnage can be readily utilized in the East. As an indication of the saving to be effected by the system, it will eliminate the movement of more than 2,000,000 tons of Pocahontas coal to Chicago and other western points over a haul of about 600 miles. Chicago can obtain this tonnage of coal, and under this system must obtain it, from southern Illinois mines with an average haul of 312 miles. Allowing for the difference in quality in the two coals there will thus be saved 11,400,000 car miles or very conservatively figured, 285,000 round trips of 20 days each from West Virginia mines to zone destinations, permitting an additional production of at least 700,000 tons of Pocahontas coal.

Similar comparisons show that on the movement of 550,000 tons annually from Kanawha districts to Wisconsin points there can be saved about 2,500,000 car miles, with a consequent increased production of some 300,000 tons. On the movement from southeastern Kentucky to Chicago the saving will be about 800,000 car miles and 50,000 tons production. The elimination of the Indiana-to-Iowa movement will save 1,600,000 car miles and permit 100,000 tons additional production. These

are only a few of the instances of transportation saving to be effected by the system. The bituminous coal, the movement of which is regulated by the zone system is about 300,000,000 tons or 60 per cent of the total production. Based on this production there will be saved on the round trip from and to the mines almost 160,000,000 car miles. This will permit the same cars to make almost 300,000 additional trips from the mines, equivalent to an increase of five per cent in the production.

Another means employed to secure greater production through the more expeditious and effective use of cars was that of unifying the work of handling coal shipments at the more important eastern ports. The Fuel Administration formally approved the Tidewater Coal Exchange and ordered all shippers of coal to New York, Philadelphia, Baltimore, and Hampton Roads to make their shipments through that body. Under this arrangement the number of consignees was reduced from in the neighborhood of a thousand to about 50, and coal shipped was largely pooled so as to be available for any or all ships regardless of the particular ships for whose use it may have originally been intended. This did away with a situation in which a vessel might be held in port awaiting the arrival of its particular shipment of coal while there was abundance of coal at the docks awaiting delivery to other ships. It was estimated that resort to this pooling arrangement resulted in an increased production through the more rapid transference of cars amounting to several millions of tons a year.

Even through these and other measures it was impossible to secure a supply of coal adequate for all needs. It accordingly became necessary to determine those users of coal which should be preferred or have first claim on the supply available. This problem was one that devolved primarily upon the Priorities Division of the



War Industries Board. That Board, as we have pointed out, divided the industries of the country into classes according to their relative essential character. Its classification was followed by the Fuel Administration. It was indeed largely through the granting of priority in respect to the receipt of coal that the War Industries Board was able to enforce its control over the industries of the country. It could thus compel an industry not of an essential character to curtail its operations or entirely to discontinue them by lessening or shutting off its coal supply. The War Industries Board and the Fuel Administration worked in close coöperation with each other in handling this phase of their work. Large credit, however, should be given to the industries of the country which voluntarily undertook to cut down their non-war work and agreed upon percentage. The result was that in only a few instances did the War Industries Board or the Fuel Administration have to make use of their powers of compelling compliance with their orders. The Fuel Administrator was thus able to state in his annual report for the year ending June 30, 1918, that "the voluntary saving shown by the industries already called into conference promises to be over 15,000,000 tons. The brewers have voluntarily agreed to save 700,000 tons; the boxboard manufacturers will cut their running time to five days a week. This will save 1,000,000 tons of coal and take 30,000 cars of merchandise off the railroads."

As the winter of 1917-18 advanced it became increasingly apparent that serious difficulties were going to be encountered in furnishing to domestic consumers even the minimum amount of coal required by them to heat their residences and to the many small shops and stores to heat their buildings. This situation was one that



could be met only by the Government's assuming almost entire charge of the distribution of coal to these consumers. The Fuel Administration therefore issued order after order directing the movement of coal as the need for coal in one locality or another became apparent. By an order issued on March 9, 1918, and effective on April 1 following, the Fuel Administration established what was in effect a rationing system for domestic consumers. It was thus ordered that after April 1, 1918, no dealer should furnish coal to a domestic consumer until he had received from such consumer a statement upon a form provided by the Fuel Administration setting forth the amount of coal he had on hand, the amount he had on order, the name of the dealer ordered from, the amount used by him during the preceding 12 months, and the amount needed to meet his actual and necessary requirements prior to March 31, 1919; and that not to exceed two-thirds of the normal annual requirements of the consumer should be furnished to him unless such requirements did not exceed six tons. The State Fuel Administrators were, however, authorized to modify these requirements as circumstances permitted.

A few days later, on March 15, 1918, the President issued a proclamation establishing a general licensing system to be administered by the Fuel Administration for all persons, firms, and corporations "engaged in the business of distributing coal or coke as jobber, trader, selling agent, purchasing agent, wholesaler, or in any capacity whatsoever," except those specifically exempted by the Food and Fuel Control Act, producers, and miners of coal and manufacturers of coke, distributing exclusively their own product, and retail dealers as defined by the order of the Fuel Administrator of October 1, 1917.

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The fifth branch of the activities of the Fuel Administration consisted in the taking of steps to secure economy and efficiency in the consumption of coal. With the coöperation of the Bureau of Mines a campaign of education was carried on which had for its purpose to inform coal users how best to feed and stoke their furnaces to secure the maximum result with the minimum use of fuel. The use of wood in substitution for coal was encouraged. On November 9, 1917, an order was issued prohibiting the use of coal for purposes of generating electricity for use in operating illuminated advertisements, notices, signs, etc., between the hours of 7:45 and 11 p. m. This was followed by the excessively drastic order of January 17, 1918, which provided that on the following five days (January 18-22) and on every Monday beginning with January 28 to March 25, 1918, inclusive, "no manufacturer, or manufacturing plant," except certain specified ones having to do with work that must be continuously prosecuted or handling perishable products or printing daily newspapers or magazines periodically issued, should burn any coal; and that on each of the designated Mondays no coal should be burned, except as necessary to prevent injury to or loss of property, by wholesale and retail stores and places of amusement, or for the heating of offices except those used by Government officers, transportation and public-utility companies, banks, physicians and dentists. Hotels and restaurants not serving intoxicating drinks were also excepted from this order. This order applied only to the region east of the Mississippi River, including the whole of Louisiana and Minnesota.

It is unnecessary to say that this order excited much discussion in respect to its necessity. It was, however, generally and loyally observed until it was finally re-

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scinded on February 13, 1918. The reason for its issuance was not wholly that of the absolute shortage of coal. Primarily it was issued to break the blockade of cars on the railroads and to enable the sailing of vessels so as to relieve the congestion in the eastern ports and to dispatch to our allies the products of which they were urgently in need. Thus the President, in a statement given to the public for the purpose of making known that the order had been issued with his full approval, said:

It is absolutely necessary to get the ships away; it is absolutely necessary to relieve the congestion at the ports and upon the railways; it is absolutely necessary to move the great quantities of food; and it is absolutely necessary that our people should be warm in their homes if nowhere else, and half-way measures would not have accomplished the desired ends.

Another order restricting the use of fuel was that of July 19, 1918, limiting greatly the use of fuel for general outdoor illumination purposes, the lighting of shop windows, etc. Every effort was also made to cut down the consumption of fuel by steam and electric railways by the use of greater care in stoking, by cutting down or eliminating the heating of cars, and by reduction in the number of stops made by street-railway cars.

At the outset the activities of the Fuel Administration were devoted almost wholly to the production, distribution, and consumption of coal. On January 31, 1918, control over the distribution of fuel oil was established by a proclamation of the President establishing a licensing system under the administration of the Fuel Administration for all producers and dealers in fuel oil whose annual gross sales amounted to more than 100,000 barrels. This was followed by an order of the Fuel Admin-

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istration of the same date fixing priority in respect to the securing of fuel oil. On August 7, 1918, the President, acting under the power conferred upon him by the Overman Act, transferred to the Fuel Administration the duty of preparing and adopting standardized specifications for the supply of petroleum and its products to all Government departments and agencies, and for this purpose directed the creation of a committee representing the more important war agencies and the Bureaus of Mines and of Standards for the preparation of such specifications. A final step in bringing under Government control practically all classes of fuel except wood was taken through the issue on September 16, 1918, of a proclamation requiring the licensing by the Fuel Administration of all importers, producers, manufacturers, transporters (except those specifically exempted by the Food and Fuel Control Act), and all retailers (except those whose sales did not amount to \$100,000 a year) of crude oil, fuel oil, gas oil, kerosene, gasoline, and natural gas. The Fuel Administrator was at the same time authorized to establish and enforce such regulations in respect to the issuance or cancellation of such licenses as in his opinion were necessary to carry into effect the purposes of the Food and Fuel Control Act.

Almost immediately upon the signing of the armistice action was taken to remove restrictions upon the transportation and consumption of coal as rapidly as possible. At the outset the cancellation of orders related to minor matters. On February 1, 1919, however, practically all restrictions on the prices of coke and of coal and the zone regulations governing the movement of these fuels by rail were removed. The provision that shipments of coal to tidewater should go through the

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Tide-Water Coal Exchange was, however, continued in order to avoid congestion at the ports, but this provision in turn was cancelled on February 28. On May 15, 1919, all regulations governing licensees engaged in the business of importing, manufacturing, distributing and transporting crude oil, fuel oil, natural gas, etc., or in the production or sale of these commodities, were revoked. In general terms it may be said that with this order the Fuel Administration surrendered its active control over the fuel industry of the country. The Administration, however, continued its existence in order to render assistance in meeting problems that might arise in its field during the period of reconstruction and also to be available should circumstances render it advisable that governmental control over the fuel industry be revived.

## CHAPTER XIII

### THE CONTROL OF ENEMY ALIENS AND SUPPORTERS

Enemy sympathizers and their activities—Existing statutes and special legislation for their control—Elements in the problem—Seditious utterances—Trading with the enemy—Registration and restriction of enemy aliens—Enemy insurance, patents, and copyrights—Sequestration of enemy property—Creation of the Alien Property Custodian—His powers and functions under the Trading-with-the-Enemy Act—Organization of his office—His procedure and operations—His disclosures of German methods of economic penetration.

One of the special problems that had to be met by the United States in the prosecution of the war arose from the residence within our midst of large numbers of persons who were citizens of the countries with which we were at war or of countries allied with them, or who, although citizens of the United States, sympathized with the enemy because of the fact that they had been born in the enemy country or were descendants of persons so born. Overwhelming evidence accumulated during the period intervening between the outbreak of the war in Europe and our entrance into it that many of these enemy aliens or sympathizers, acting under the encouragement and direct support of the diplomatic and consular representatives of the Central Powers in the United States, were prepared to go to almost any length to promote the interests of the enemy and to injure those of the country whose hospitality they had been and were enjoying.

To meet this situation the most stringent measures of precaution had to be taken and the powers of the Government greatly enlarged by appropriate legislation.



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Among the laws thus enacted the most important were the Espionage Act of June 15, 1917, the amendment to that Act of May 6, 1918, the Trading-with-the-Enemy Act of October 2, 1917, and the Sabotage Act of April 20, 1918. There was already on the statute books the exceedingly important Section 4067 of the Revised Statutes, which read as follows:

Whenever there is declared a war between the United States and any foreign nation or government, or any invasion or predatory incursion is perpetrated, attempted or threatened against the territory of the United States, by any foreign nation or government, and the President makes proclamation of the event, all nations, citizens, denizens or subjects of the hostile nation or government, being males of the age of fourteen years and upwards, who shall be within the United States and not actually naturalized, shall be liable to be apprehended, restrained, secured and removed as alien enemies. The President is authorized in any such event, by his proclamation thereof, or other public act, to direct the conduct to be observed, on the part of the United States towards the aliens who become so liable; the manner and degree of the restraint to which they shall be subject, and in what cases, and upon what security their residence shall be permitted, and to provide for the removal of those who, not being permitted to reside within the United States, refuse or neglect to depart therefrom; and to establish any other regulations which are found necessary in the premises for the public safety.

This section was amended by an Act of April 12, 1918, extending its provisions to women as well as men.

It is impracticable in the present work to attempt anything like a complete account of all the action taken by the Government under these Acts to restrain the activities of enemy aliens and sympathizers. Such action, however, may be summarized under the following heads: (1) the control of utterances or publications of

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a treasonable or seditious character or of a nature calculated to give aid and comfort to the enemy or to embarrass the Government in its war activities; (2) the prohibition or control of trading with the enemy, enemy sympathizers, or persons having trading relations with the enemy; (3) the control of the entry or departure of enemy aliens from the United States; (4) the registration of alien enemies; (5) the fixing of zones or districts within which enemy aliens should not reside or enter; (6) the control of the business of insurance as carried on by enemy corporations within the United States; (7) the regulation of the granting of patents or copyrights to enemy aliens and the use by citizens of the United States of patents owned or controlled by enemy aliens; (8) and the seizure and sequestration of property in the United States owned by enemy aliens.

An account of the action taken under the first two heads has already been given in our consideration of the topics of the mobilization of publicity agencies and of foreign trade. To the Department of Justice was entrusted the general work of controlling enemy aliens and enemy-alien activities in the United States. This work was performed through the creation and operation, under its Bureau of Investigation, of an elaborate secret-service organization, with the duty of detecting all acts of a hostile character by aliens or others and of bringing their perpetrators to justice, and through the putting into effect of orders of the President calling for the registration of all enemy aliens in the country. To the Federal Trade Commission was entrusted the enforcement of the provisions of the alien-enemy laws relative to the business of insurance, patents, and copyrights.<sup>1</sup>

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<sup>1</sup> For a description of the administration of this function see, in this series, Louis E. Van Norman, *War Time Control of Commerce*.

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Finally, to a special war agency, known as the Alien Property Custodian, was given the duty of seizing, sequestrating, and administering all property belonging to enemy aliens in the United States. Inasmuch as the present work has to do, not with the war work generally of the Government, but only with the organization and activities of special war agencies, it is with the latter institution alone that we are here concerned.

One of the most important features of the Trading-with-the-Enemy Act of October 6, 1917, was that providing for the taking over by the Government of the United States of all property situated in the United States or any of its possessions belonging to an enemy or ally of enemy as defined by the Act. Section 6 of this Act thus provided:

That the President is authorized to appoint, prescribe the duties of, and fix the salary (not to exceed \$5,000 per annum) of an official to be known as the Alien Property Custodian, who shall be empowered to receive all money and property in the United States due or belonging to an enemy, or ally of enemy, which may be paid, conveyed, transferred, assigned, or delivered to said custodian under the provisions of this Act; and to hold, administer, and account for the same under the general direction of the President, and as provided in this Act.

The terms "enemy" or "ally of enemy" were employed in quite a technical sense as defined in the Act. They included all persons, whether citizens of the enemy, or ally of enemy, countries or not, within the military or naval lines of Germany and her allies, and any person residing outside of the United States and doing business within such lines. American citizens in Germany were thus deemed, for the purposes of this Act, to be "enemies," whereas German citizens in the United States

were not. The latter, unless interned, were thus permitted to continue in trade and commerce and in the possession of their property so long as they remained in the United States and obeyed its laws. The purpose of the Act, in other words, was not to provide for the taking over of all property within the United States belonging to citizens of the enemy or ally of enemy countries, but merely to prevent those countries, or persons residing within those countries, during the period of the war from exercising any control over or deriving any profit from the use of property situated within the United States.

Having defined these terms, the Act then provided that:

Any person in the United States who holds or has or shall hold or have custody or control of any property beneficial or otherwise, alone or jointly with others, of, for, or on behalf of an enemy or ally of enemy, or of any person whom he may have reasonable cause to believe to be an enemy or ally of enemy and any person in the United States who is or shall be indebted in any way to any enemy or ally of enemy, or to any person whom he may have reasonable cause to believe to be an enemy or ally of enemy, shall, with such exceptions and under such rules and regulations as the President shall prescribe, and within thirty days after the passage of this Act, or within thirty days after such property shall come within his custody or control, or after such debt shall become due, report the fact to the Alien Property Custodian by written statement under oath containing such particulars as said custodian shall require. The President may also require a similar report of all property so held, of, for, or on behalf of, and all debts so owed to, any person now defined as an enemy or ally of enemy, on February third, 1917: *Provided*, That the name of any person shall be stricken from the said report by the Alien Property Custodian, either temporarily or permanently, when he shall be satisfied that such person is not an enemy or ally of enemy. The President may extend the time for filing the lists or reports

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required by this section for an additional period not exceeding ninety days.

The Act also provided that every corporation incorporated within the United States and every unincorporated association or company or trustees issuing shares or certificates representing beneficial interests should, under such rules and regulations as the President might prescribe, send to the Custodian full lists, duly sworn to, of officers, directors, or stockholders known to be, or whom the representative of the corporation or association has reasonable ground for believing to be an enemy or ally of enemy resident within the United States, or a subject or citizen residing outside the United States of any nation with which the United States was at war, or resident within the territory, or a subject or citizen residing outside of the United States, of any ally of any nation with which the United States was at war, together with the amount of stock owned or interest had by such officer or stockholder. The President was also authorized to require similar lists to be sent in as to stock or shares owned on February 3, 1917, and also lists of cases in which there was reasonable ground for believing that the stock or interest, although in other names, was in fact owned by an enemy or ally of enemy.

Other clauses in the Act provided that the President might require that any money owed in the United States to a person in Germany or her allied countries should be transferred to the Alien Property Custodian, or this should be done without waiting for such an order from the President; and such payments should operate as a full discharge of the obligations in question. So also mortgages and other liens held on property of enemies or allies of enemies might be enforced and surplusages

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realized from sales of property be held at the order of the President.

In general it was thus the duty of all persons and institutions in the United States to make full discovery to the Alien Property Custodian of all property or interests in property belonging to an enemy or ally of enemy as defined by the Act. Failure so to do rendered the offender liable to a heavy fine or imprisonment or both. Conversely, it was one of the prime duties of the Alien Property Custodian to use his utmost efforts to discover all such property and interests. This duty he discharged through a large force of examiners and investigators and through calling upon all persons, and especially banks, trust companies, corporations, associations, etc., to assist him in his efforts.

Having secured knowledge of property or property interests belonging to the enemy or allies of the enemy, it was then the duty of the Custodian to proceed to take possession of it, or otherwise to bring it within his control, and to sell or administer it according to the circumstances of the case. In respect to all property coming within his possession in this way the Custodian occupied the position of a trustee, and the property seized and sold and the earnings of estates or properties administered were to be held by him as trust funds to be distributed as might be determined upon the conclusion of peace. The Act thus provided that:

The Alien Property Custodian shall be vested with all of the powers of a common-law trustee in respect of all property, other than money, which has been or shall be, or which has been or shall be required to be, conveyed, transferred, assigned, delivered, or paid over to him in pursuance of the provisions of this Act, and in addition thereto, acting under the supervision and direction of the President, and under such rules and



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regulations as the President shall prescribe, shall have power to manage such property and do any act or things in respect thereof or make any disposition thereof or of any part thereof, by sale or otherwise, and exercise any rights or powers which may become appurtenant thereto or to the ownership thereof in like manner as though he were the absolute owner thereof: *Provided*, That any property sold under this Act, except when sold to the United States, shall be sold only to American citizens, at public sale to the highest bidder, after public advertisement of time and place of sale which shall be where the property or a major portion thereof is situated, unless the President stating the reasons therefor, in the public interest shall otherwise determine: *Provided further*, That when sold at public sale, the Alien Property Custodian upon the order of the President stating the reasons therefor, shall have the right to reject all bids and resell such property at public sale or otherwise as the President may direct. Any person purchasing property from the Alien Property Custodian for an undisclosed principal, or for re-sale to a person not a citizen of the United States, or for the benefit of a person not a citizen of the United States, shall be guilty of a misdemeanor, and, upon conviction, shall be subject to a fine of not more than \$10,000, or imprisonment for not more than ten years, or both, and the property shall be forfeited to the United States. It shall be the duty of every corporation incorporated within the United States and every unincorporated association, or company, or trustee or trustees within the United States issuing shares or certificates representing beneficial interests to transfer such shares or certificates upon its, his, or their books into the name of the Alien Property Custodian upon demand, accompanied by the presentation of the certificates which represent such shares or beneficial interests. The Alien Property Custodian shall forthwith deposit in the Treasury of the United States, as hereinbefore provided, the proceeds of any such property or rights so sold by him.

In marked contrast with most war legislation, this Act, although vesting the powers granted for the most part in the President, made express provision for the agency through which these powers were to be exer-

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cised. The office of Alien Property Custodian, unlike most of the other war agencies, thus had a statutory status.

On October 12, 1917, the President appointed A. Mitchell Palmer Alien Property Custodian, and by an executive order of the same date vested in him the exercise of the powers conferred by the Trading-with-the-Enemy Act of October 6, 1917, in so far as they related to the seizure and sequestration of property of the enemy or ally of enemy as above set forth. These powers were still further defined or broadened by a series of proclamations and executive orders subsequently promulgated by the President.

To perform the duties falling upon him the Alien Property Custodian had to build up a large organization. In his report to the President submitted on January 1, 1918, he stated that the work to be done by him was not unlike that performed by a large trust company with the exception that he had to handle at once a large number of different estates or trusts, and that instead of clients coming to him, he had in many cases, by a process of investigation, to determine the property that should come under his control. The property of each person or concern taken had, however, to be treated as a separate estate and special provision made for its administration and the keeping of accounts regarding it. The exact nature of the work that had to be done by him can probably be best set forth by reproducing from this report the description given by him of the organization created for the performance of his work:

Five bureaus have been created, each in charge of a director:

(1) Bureau of administration, charged with the duty of operating the machinery of the entire organization.

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(2) Bureau of investigation, to which all reports are referred and which is charged with the duty, after full and thorough investigation of each case, of determining whether a report discloses the proper subject matter of a trust to be taken over by the Custodian.

(3) Bureau of trusts, to which such reports are referred after proper action by the bureau of investigation, which said bureau of trusts exercises through its several divisions the powers and duties vested in the Alien Property Custodian under Section 12 of the Trading-with-the-Enemy Act, and such other sections as are relevant thereto, and the Executive Orders vesting powers in the Alien Property Custodian with respect to property conveyed or assigned to him.

(4) Bureau of audits, designed to constitute a constant check upon the operations of all other bureaus, and to examine and audit the books and accounts of depositaries and of all businesses and estates operated and held by the Alien Property Custodian, in order to make certain that the Custodian does actually have in his possession or control all of the property which he has demanded and received, and which is charged to him upon his books.

(5) Bureau of law, to act as the legal advisor to the Custodian and the various bureaus in the organization, and to conduct litigation in which the Custodian or the estates within his custody and control may be interested.

The report further stated that in a general way the means through which the Custodian received the business transacted by him were as follows:

(1) Informal reports by various interested persons disclosing enemy property in this country which upon investigation may develop a situation which calls for action by the Alien Property Custodian under the section above quoted.

(2) Original investigation conducted by this office or by the various secret service and intelligence bureaus of other departments of the Government.

(3) Formal reports as required by the Trading-with-the-Enemy Act made direct to the Alien Property Custodian.

(4) Licenses granted by the War Trade Board to in-

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dividuals, partnerships and corporations within the United States, enemy-owned in whole or in part, to continue in business for the purpose of liquidation under the supervision, management and control of the Alien Property Custodian, the proceeds of such liquidation to be paid over to him.

(5) Action by the War Trade Board referring applications for license to do business on the part of individuals and partnerships and corporations incorporated in enemy or ally of enemy countries, in which cases the Alien Property Custodian must either take possession of the properties and businesses involved and operate and manage the same or liquidate and sell them.

(6) Licenses issued by the Treasury Department to enemy or ally of enemy owned insurance and reinsurance companies, permitting continuance in business for the purpose of liquidation under the supervision of the Alien Property Custodian.

(7) Failure of said insurance companies to apply for license within the time required by the Trading-with-the-Enemy Act or the refusal of the Treasury Department to issue such license, in both of which cases liquidation of the companies involved must proceed under the direct supervision and control of this office.

(8) Trust estates arising out of the operation of Section 10 of the Trading-with-the-Enemy Act relative to patents and licenses for the use of patented articles.

The operations of this agency were on an enormous scale. The property taken over by it ran into hundreds of millions of dollars. Mr. Palmer, the Custodian, has stated in public addresses that the work of his organization revealed the fact that many of the investments made by Germans in the United States had in view not merely commercial and industrial ends, but the securing of control over important utilities and key industries so as to prevent their effective utilization in case of a war in which the United States was a neutral or the opponent of Germany. He was also emphatic in the statement that the evidence was convincing that many of these

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German-owned enterprises were deliberately used by the German Government as integral parts of its propaganda and secret service or spy system in the United States. Wherever there was reasonable ground to believe that this was the case, or the enterprise was of a character that it was unwise to leave in the hands of aliens, its affairs have been wound up and the property sold. Although the office of Alien Property Custodian was created primarily for the purpose of preventing residents in enemy countries from using property located in the United States as a source of revenue or otherwise, it has been a powerful agency for breaking up the hold that Germany and German citizens had upon many of our important industries. The justification for this lay not merely in the danger that such a condition of affairs presented to our national security, but in the manner in which the power granted to such aliens had been grossly abused.

The final disposition that will be made of the property and money sequestered rests with Congress, which in turn will be influenced by the conditions of the treaty of peace as finally signed.

## CHAPTER XIV

### AIRCRAFT CONSTRUCTION

Disappointments of the aviation programme — National Advisory Committee for Aeronautics — Its functions and services — Joint Army and Navy Technical Aircraft Board — Creation of the Aircraft Production Board by the Council of National Defense — Creation of the Aircraft Board by Congress — Its statutory powers — Its functions and activities — The Liberty Motor — Aircraft investigations and reorganization of the Air Service — The Bureau of Aircraft Production.

Of all the branches of war activity of the United States none gave so much trouble or produced such unsatisfactory results as aircraft production. This was not due to any lack of appreciation on the part of the Government of the importance of military aviation. The experience of the belligerents prior to the entrance of the United States into the war had made plain the important part that aviation was to play in both military and naval operations, and Congress placed almost unlimited funds at the disposal of the Administration with which to build and operate a fleet of aircraft. The failure of the Government to meet expectations in respect to the actual construction of airplanes was due to a number of causes, one of which was its failure to work out a proper system of administration for the handling of aircraft matters. It is with this phase only of the question that we are here concerned.<sup>1</sup>

The first agency to be established to assist in the de-

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<sup>1</sup> A detailed discussion of the problems, difficulties, failures, and achievements in aircraft production is given, in this series, in Arthur Sweetser, *The American Air Service*.



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velopment of an aviation service was that known as the National Advisory Committee for Aeronautics. This service was created prior to our being drawn into the war by a section contained in the Naval Appropriation Act of March 3, 1915, which provided for the constitution of a committee under this name which should have as its function "to supervise and direct the scientific study of the problems of flight with a view to their practical solution, and to determine the problems which should be experimentally attacked and to discuss their solution and their application to practical questions." The Act provided that the Committee should be composed of 12 members to be appointed by the President, two of whom should be from the office in charge of military aeronautics of the War Department, two from the office in charge of naval aeronautics of the Navy Department, one from the Smithsonian Institution, one from the Weather Bureau, one from the Bureau of Standards, and the remaining five from among persons "acquainted with the needs of aeronautical science, either civil or military, or skilled in aeronautical engineering or its applied sciences." All of these members were to serve without compensation. It was further provided that in case a laboratory or laboratories were placed under the direction of the Committee, the latter should direct their operations and conduct such researches and experiments as it found necessary. An appropriation of \$50,000 a year for five years was made for the support of the Committee. This appropriation, however, was subsequently greatly increased, that for the fiscal year 1918 being \$100,000.

The Committee was constituted with Dr. William F. Durand of the Leland Stanford University of California as its Chairman, Dr. S. W. Stratton, Director of the

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Bureau of Standards as the Secretary, and Dr. Charles D. Walcott, Director of the Smithsonian Institution, as Chairman of its Executive Committee. For the prosecution of its work the Committee created subcommittees on the following subjects: Aerial Mail Service, Aero Torpedoes, Aircraft Communications, Airplane Mapping, Bibliography of Aeronautics, Buildings, Laboratories and Equipment, Civil Aerial Transport, Design, Construction and Navigation of Aircraft, Editorial, Foreign Representatives, Free Flight Tests, Governmental Relations, Helicopter or Direct-Lift Aircraft, Nomenclature for Aeronautics, Patents, Policy, Power Plants, Quarters, Radiator Design, Relation of the Atmosphere to Aeronautics, Site for Experimental Field, Engineering Problems, Standardization and Investigation of Materials, and Steel Construction for Aircraft.

The Committee has been a very active body. It has published three annual reports, each of which includes a large number of scientific memoirs or papers dealing with the technical problems of aviation. Especially important has been its work in analyzing the whole problem of aircraft construction and operation; in acting as a means for correlating and standardizing the work of the War and Navy Departments; in making an inventory of aircraft facilities in the United States; in establishing close working relations with aircraft producers; and in assisting in the working out of plans for the production and testing of aircraft and the training of aviators. Itself not an operating service, it has thus been an exceedingly valuable staff agency for all branches of the Government having to concern themselves with the problems of flight.

Regarding the work of this Committee, Mr. Justice Hughes, in his report on the aircraft-production inquiry

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prosecuted by him at the request of the President, had this to say:

This body has been continuously maintained; it has examined numerous inventions and has been engaged in scientific study. But it has had nothing to do with the formulation of the aircraft programme or with decisions as to the types of planes or engines selected for production. The Committee was also active in securing the adjustment reflected in what is known as the cross-license agreement for the payment of royalties for the use of patented inventions pertaining to aircraft.

A Joint Army and Navy Technical Aircraft Board was created early in May, 1917, for the purpose of standardizing "so far as possible the designs and general specifications of aircraft except Zeppelins." It was composed of officers of the Army and the Navy selected by the Secretaries of War and of the Navy who were believed to have special qualifications by reason of their scientific study of, or experience with, the construction and operation of aircraft. This Board made a number of recommendations, but it never played any controlling part in the formulation or execution of an aircraft programme.

About the same time that the Departments of War and the Navy were creating their Joint Technical Aircraft Board, the Council of National Defense took steps to create a somewhat similar agency. A resolution adopted on April 12, 1917, provided for the creation of a body to be known as the Aircraft Production Board, the function of which was declared to be:

to consider the situation in relation to the quantity production of aircraft in the United States and to coöperate with the officers of the Army and Navy, and of other departments in-

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terested in the production and delivery to these Departments of the needed aircraft in accordance with the requirements of each Department.

This Board was promptly organized under the chairmanship of Howard E. Coffin, Vice-President of the Hudson Motor Car Company, of Detroit, and a member of the Advisory Commission of the Council of National Defense. As Mr. Hughes pointed out in his report above referred to, while the Board had no authority to commit the Government, it was very active in the formulation of plans and the giving of advice. Numerous contracts for airplanes and engines were entered into upon its advice.

Although this body rendered services of value in bringing the officers of the War and Navy Departments into touch with establishments manufacturing airplanes or capable of participating in such work and in the development of an airplane programme, the fact that it had only recommendatory powers and no legal status led Congress to the decision that it should be superseded by a body with carefully defined duties and powers. Congress accordingly passed an act entitled "An Act to create the Aircraft Board and provide for its maintenance," approved on October 1, 1917.

This Act provided for the creation of a body to be known as the Aircraft Board, to be composed of not more than nine members, three of whom should be civilians appointed by the President, one of whom should be Chairman of the Board; three officers of the Army to be appointed by the Secretary of War, one of whom should be the Chief Signal Officer of the Army; and three officers of the Navy to be appointed by the Secretary of the Navy, one of whom should be the Chief Con-

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structor of the Navy. The functions of this Board were stated in broad terms to be those of

expanding and coördinating the industrial activities relating to aircraft, or parts of aircraft, produced for any purpose in the United States, and to facilitate generally the development of air service.

In the discharge of these functions the Board was given the power,

under the direction and control of and as authorized by the Secretary of War and the Secretary of the Navy, respectively, on behalf of the Departments of War and Navy, to supervise and direct, in accordance with the requirements prescribed or approved by the respective departments, the purchase, production and manufacture of aircraft, engines, and all ordnance and instruments used in connection therewith, and accessories and materials therefor, including the purchase, lease, acquisition, or construction of plants for the manufacture of aircraft, engines, and accessories: Provided that the Board may make recommendations as to contracts and their distribution in connection with the foregoing, but every contract shall be made by the already constituted authorities of the respective departments.

In another section power was conferred upon the Board to appoint and fix the compensation of personnel required by it, to rent quarters, and to effect such an organization as it deemed proper, with the important limitation, however:

That except upon the joint and concurrent approval of the Secretary of War and the Secretary of the Navy there shall not be established or maintained under the board any office or organization duplicating or replacing, in whole or in part, any office or organization now existing that can be properly established or maintained by appropriations made for or available for the military or naval services.

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For the meeting of the expenses of the Board the Act carried an appropriation of \$100,000.

In creating this Board Congress had in mind the separation of the two tasks of procuring aircraft and their subsequent utilization by the Army and Navy. The scope of the duties of this body, however, was very greatly limited by an opinion given by the Acting Judge-Advocate-General of the War Department in February, 1918, in which he held that the Board had "only advisory or recommendatory functions." Thereupon the Chief Signal Officer of the Army issued an order, which was approved by both the Secretary of War and the Secretary of the Navy, in which the duties of the Board were defined to be as follows:

(a) To act as a clearing house between the General Staff and the Signal Corps for all matters pertaining to raw materials for foreign governments for the production of aircraft, the Equipment Division of the Signal Corps to act as purchasing agency.

(b) To act as a clearing house between the General Staff and the Signal Corps for all information in relation to requirements of foreign governments for aircraft to be manufactured in the United States.

(c) To act as a clearing house for all information as to requirements as between the Army and Navy for aircraft and raw materials.

(d) To study the requirements of the Army and Navy as regards combat and training planes. To study types with the technical division of the Army and Navy to the end that recommendations be made that given types be placed with industrial plants best fitted to undertake their manufacture. The Aircraft Board shall have no direct communication with manufacturing plants, except through the medium of the procurement divisions.

(e) As a result of above studies the Aircraft Board may recommend that preparations be made for production before actual contracts are made.



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(f) To recommend the placing of experimental contracts.

(g) All programs should be made up by the Board from information which shall be furnished by the proper Army and Navy military and naval branches on the one hand and the equipment and production division of the Army and Navy on the other. All foreign cables respecting aircraft production should be cleared through the Board.

(h) The Aircraft Board should be the instrumentality through which contact is made on matters of large policy with other bodies such as Shipping Board, allied representatives, etc.

The effect of this order was, of course, to leave with the aircraft services of the two Departments of War and of the Navy full authority in respect to all aircraft matters whether relating to the adoption of types, the procurement of airplanes, or their subsequent operation.

The Aircraft Board was constituted with Mr. Coffin, who had been Chairman of the old Aircraft Production Board, as its Chairman. Notwithstanding the great limitations upon its authority, the Board entered vigorously upon the work of prosecuting a large aircraft programme. It devoted its chief efforts to a determination of the aircraft facilities and resources of the country, the stimulation of the production of spruce, linen, and other materials needed for the manufacture of airplanes, and the development of a standard airplane motor. To a considerable extent interest in its work centered around its efforts in the last named direction. The difficulties in the way of providing for the production in this country of foreign motors made it imperative that something be done toward producing a motor which, while fulfilling the requirements of service at the front, should at the same time be designed for quantity production in this country. The designing of

a standard motor was the engineering objective of the original Aircraft Production Board. Two of the best engineer experts in aviation-motor design in the country were brought together at Washington, and the problem of producing an all-American engine at the earliest possible moment was presented to them. Their first conference was held on June 3, 1917. In consultation with engineers and draftsmen from various sections of the country, they worked continuously until June 30, when the new engine, known as the "Liberty Motor," was practically complete. For months an acute controversy raged over the merits of this engine. As finally modified under the Aircraft Board it undoubtedly possessed merits of a high order, and although not adapted for all classes of airplanes, it proved to be of great value both to ourselves and to our allies, the latter calling for practically as many motors as could be produced.

The delay in the perfection of this motor, or at least to put it into production upon a large scale, the failure of the Government to secure the production of other motors and airplanes, and the widespread belief that there had been great inefficiency, if not positive fraud, in the expenditure of the huge sums, amounting to over \$600,000,000, which had been voted for aviation purposes in 1917, led to the demand for a searching inquiry into the whole subject. Two such inquiries were made, one by a committee of the Senate and one by Mr. Justice Hughes, at the request of the President, acting through or under the Department of Justice. Both of these inquiries resulted in reports which, while finding few, if any, evidences of fraud, did find much to criticize in the way the whole matter of aircraft production had been handled.

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Responsibility for the actual procurement of aircraft and aircraft motors rested at all times, as has been pointed out, in the War and Navy Departments. In the War Department the service in charge of this work was the Signal Corps. It seems to be established that either this service failed to meet the responsibility resting upon it, or a mistake was made in throwing upon the same service responsibility for both the procurement and the operation of aircraft. To meet this latter consideration the President by an executive order dated May 20, 1918, issued under the authority granted to him by the Overman Act of the same date, completely reorganized the Air Service and provided for the distribution of the duties of the Signal Corps among a number of distinct services.

By this order the original duties of the Signal Corps, as a service in charge of military signalling, were carefully segregated from those pertaining to aviation operations. The former were placed under the immediate direction of the Chief Signal Officer of the Army, and the latter were entrusted to a new service known as the Division of Military Aeronautics, under the direction of a Director of Military Aeronautics to be selected and designated by the Commander-in-Chief of the Army. At the same time provision was made for a new "executive agency" designated the Bureau of Aircraft Production which, as set forth in the order, should have "full, complete and exclusive jurisdiction and control over the production of airplanes, airplane engines and aircraft equipment for the use of the Army." This Bureau, it was provided, should be in charge of a Director of Aircraft Production, to be appointed by the President, who should at the same time be Chairman of the Aircraft Board created by the Act of October 1,

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1917, and who should discharge his duties under the direction of the Secretary of War.

Major-General William L. Kenly was appointed chief of the new Division of Military Aeronautics, and John D. Ryan, Director of the Bureau of Aircraft Production. Later, in August, 1918, Mr. Ryan was appointed Second Assistant Secretary of War, and placed in general charge not only of the services headed by him, but of the Division of Military Aeronautics as well.

There can be no question regarding the great improvement from the organization standpoint resulting from this order. At the time of the cessation of hostilities most of the troubles that had interfered so seriously with the carrying out of the ambitious airplane programme of the Government had been largely overcome, and airplanes and airplane motors were being produced in quantity and shipped to our army and our allies in France. In the meantime our deficiencies had been met, in part at least, by drawing upon the production resources of France and England.

## CHAPTER XV

### WAR-RISK INSURANCE

The Bureau of War-Risk Insurance in the Treasury Department — Its functions as defined by legislation — Marine war-risk insurance — Act of September 2, 1914, and its amendments — Mariners' insurance — The War Risk Insurance Act of October 6, 1917 — Allotments to dependents of soldiers and sailors — Allowances to dependents of soldiers and sailors — Compensation and indemnity of soldiers and sailors for death or disability — Voluntary insurance of soldiers and sailors against death or disability — Scale of operations of the Bureau of War-Risk Insurance.

Although not the most important, from the standpoint of its direct bearing upon the prosecution of the war, the legislation providing for the establishment and activities of the Bureau of War-Risk Insurance in the Treasury Department is in other respects one of the most remarkable and interesting pieces of social legislation produced by the war.<sup>1</sup> This legislation covers a number of distinct features which, although more or less closely related, require separate consideration in order that their character may be clearly understood.

Conditions under which the business of marine transportation is carried on render it imperative that all vessels engaged in such business and their cargoes shall be insured against loss prior to clearing on each voyage. On the outbreak of the war in Europe the increased danger of loss due to mines and the activities of the belligerents' submarines made it evident that private

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<sup>1</sup> For a more detailed account of the functions and operations of the Bureau of War-Risk Insurance see, in this series, Samuel McCune Lindsay *Government Insurance in War Time and After*.

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insurance companies would either refuse to write insurance against risks due to these causes, or in order to protect themselves would charge rates so high as practically to prohibit voyages taking vessels through the war zone. To meet this situation Congress, by an Act approved September 2, 1914, authorized the Government itself to enter this field and to write insurance of this character. The need for this action is tersely set forth in the preamble of the Act, which reads:

Whereas the foreign commerce of the United States is now greatly impeded and endangered through the absence of adequate facilities for the insurance of American vessels and their cargoes against the risks of war; and

Whereas it is deemed necessary and expedient that the United States shall temporarily provide for the export shipping trade of the United States adequate facilities for the insurance of its commerce against the risks of war: *Therefore, etc.*

This Act provided for the establishment in the Treasury Department of a Bureau of War-Risk Insurance which should have the function, subject to the general direction of the Secretary of the Treasury, of making provision "for the insurance by the United States of American vessels, their freight and passage moneys and cargoes shipped or to be shipped therein against loss or damage by the risks of war, whenever it shall appear to the Secretary that American vessels, shippers, or importers in American vessels are unable in any trade to secure adequate war-risk insurance on reasonable terms." By an amending Act approved June 12, 1917, the Bureau of War Risk Insurance was authorized, with the approval of the Secretary of the Treasury, to make provision for the reinsurance of vessels of foreign friendly flags, or their cargoes, when such vessels or



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their cargoes were insured by the Government of any country which is at war with an enemy of the United States, and to reinsure with the Governments of any such countries American vessels and their cargoes. The authority of the Bureau to write marine insurance was still further extended by an amending Act of July 11, 1918, which authorized the Bureau to insure vessels of foreign friendly flags, their cargoes, etc., when such vessels were under charter or operated by the United States Shipping Board or a citizen of the United States, and the cargoes to be shipped in such vessels, whether or not they were so chartered or operated, whenever the Secretary of the Treasury found that such vessels were unable to secure adequate war-risk insurance on reasonable terms.

The Bureau, with the approval of the Secretary of the Treasury, was authorized to adopt forms of war-risk insurance and fix the premium rates that should be charged, which rates should be subject to modification from time to time in accordance with the experience of the Bureau. Although not so provided in the law, the theory was that these rates should be such as would compensate the Government for all losses so far as they could be so established without unduly restraining vessels from engaging in necessary overseas trade. To assist the Bureau in the formulation of its insurance policies and in the adoption of a table of premiums the Secretary of the Treasury was authorized to establish an advisory board of three members skilled in the practices of war-risk insurance. Finally, the President was authorized to discontinue this system at any time when in his judgment the need for it had passed away, and in any event to do so within two years, or in accordance with the terms of the amending Act of July 11,

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1918, within six months, after the end of the war. The Act of 1914 carried an appropriation of \$5,000,000 with which to meet losses not covered by premium receipts. This sum was increased to \$15,000,000 by an amending Act approved March 3, 1917.

The amending Act of June 12, 1917, of which mention has been made, also authorized the Bureau of War-Risk Insurance to enter a new field of insurance. It thus authorized it, under the general direction of the Secretary of the Treasury, to provide for the insurance of masters, officers, and crews of American merchant vessels against loss of life or personal injury by the risks of war and for their compensation during detention in case of their capture by the enemy. Furthermore, it made it obligatory upon the owner of every American merchant vessel to insure the master, officers, and crew of such vessel against these contingencies whenever in the opinion of the Secretary of the Treasury the effecting of such insurance was desirable in the interest of the national welfare. This insurance, it was provided, could be effected either with the Bureau of War-Risk Insurance or with private insurance companies provided the terms in the latter case were satisfactory to the Secretary of the Treasury.

The Act fixed the amount of the insurance at a sum equivalent to one year's earnings, or 12 times the monthly earnings of the insured as fixed in the articles for the voyage, but in no case to be less than \$1,500 or more than \$5,000 for death or permanent complete disability, with percentages of this sum in cases of specified injuries of a less serious character.

Interesting as was this venture of the United States

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Government into the fields of marine and mariners' insurance, it was, relatively speaking, thrown completely into the shade by the passage on October 6, 1917, of an Act which, though technically designated an Act to amend the War-Risk Insurance Act of 1914, was, in fact, an independent enactment authorizing the Bureau of War-Risk Insurance to enter an entirely new field. This Act, which was amended by the Soldiers' and Sailors' Relief Act of March 8, 1918, public resolutions of February 12 and April 2, 1918, and the Acts of May 20 and June 25, 1918, for the purpose of broadening its application and simplifying its procedure, had for its purpose the accomplishment of three things: (1) to make provision for the support of members of the families of soldiers and sailors of the United States Army and Navy in so far as they were dependent upon them for support; (2) to provide for the compensation of soldiers and sailors or their dependents in case of death or disability acquired in military service; and (3) to furnish the means by which such soldiers and sailors might insure themselves against death or total permanent disability at a minimum cost. Although these three objects are closely related to each other, it is desirable in the interests of clearness that they should be separately considered.

So long as the system of voluntary enlistment in the Army and Navy obtained, the problem of the support of the families of men entering the service scarcely existed. Under this system the men joining the colors were almost invariably young, unmarried, and comparatively free from obligations in respect to the support of others. With the adoption of the system of compulsory service, under which these considerations

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had, in many cases, to be ignored, it became imperative that provision should be made in some way for those men who, although having persons dependent upon them for their support, were drafted into the service. This was the experience of Great Britain and Canada, and the need for action of this kind was at once recognized by the United States.

The system adopted by the United States and put into effect by the Acts mentioned above rested upon the principle that the men themselves should do all that was in their power before assistance in any other way should be granted. The law thus provided for the making of certain deductions, known as "allotments," from the pay of enlisted men and their payment directly to the members of the families of such men dependent upon them for support. These allotments were of two kinds—compulsory and voluntary. Every enlisted man having a wife or child under 18 years of age, or of any age if insane or permanently helpless, or a divorced wife to whom he was under legal obligation of paying alimony, was compelled to "allot" \$15 a month from his pay to be paid directly to such dependent by the Government. In considering this obligation account should be taken of the fact that by previous enactment the minimum pay of enlisted men had been raised to \$30 a month, or double what it had been in the past and much the most generous compensation paid to enlisted men by any Government in the world. The law as originally enacted provided for variations in the amount of this allotment according to the number of dependents, but because of the administrative difficulties involved in determining the amounts due, the system was changed by the amending Act of June 25, 1918, to a flat rate of \$15 a month in all cases.

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In addition to these compulsory allotments to what were designated as "Class A dependents," enlisted men were permitted voluntarily to allot such further portions of their pay as they might desire, either to this class of dependents or to their parents, grandparents, brothers, sisters, or grandchildren, who were designated as "Class B dependents."

Having taken steps to insure that enlisted men should do their part in respect to providing for the support of those dependent upon them, the Act further provided that the Government should do its share by making additional payments to such dependents. These payments, which were known as "allowances," ranged from \$5 a month for a motherless child and \$15 a month for a wife without children up to a maximum of \$50 according to the number of dependent persons for whom provision had to be made. These allowances were paid only when allotments were already being paid from the pay of the enlisted men. If the enlisted man was making a compulsory allotment to his wife and children, he need allot only \$5 additional to his "Class B dependents" in order to claim an allowance for them. If he was not making such a compulsory allotment, he must allot \$15 to his "Class B dependents" in order to obtain for them the Government allowance. In the case of "Class B dependents," however, it must be established that they were dependent in whole or in part upon the enlisted man for their support.

The system of allotments and allowances was intended to make provision only for the time when an enlisted man, due to his enlistment, was unable to provide by other means for the support of those dependent

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upon him. It did not provide for the case where he was killed or permanently disabled. In the past this contingency, as is well known, has been provided for by the establishment of a pension system. The abuses of this system have been so enormous that the desire was almost universal that they should be guarded against if any possible means could be found. The solution of this problem was found in the systems of compensation and of insurance about to be described.

The system of compensation for death or disability incurred in the service established by the Act under consideration represented the adoption of the principle of compensation which has been so successfully applied in the case of industrial workers and which had already been adopted by the National Government in the case of all civil employees. By an Act approved September 7, 1916, Congress provided for the establishment of a comprehensive system of compensation for civil employees of the National Government injured while in the performance of their duties, and created for the administration of this system a special body known as the United States Employees' Compensation Commission. The present Act provided for an analogous system for the entire personnel of the Army and Navy, commissioned officers as well as enlisted men, regardless of rank or pay, when employed in active service.

Two classes of compensation payments were provided for—for death and for disability. The payment for death ranges from \$20 to \$75 a month according to the number of beneficiaries to be compensated, and is paid only to the widow, children, and dependent father or mother. This compensation is not paid automatically, but only upon application on blank forms furnished by the Bureau of War-Risk Insurance. Right to it accrues



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only when death is incurred in the line of duty and was not caused by the decedent's own willful misconduct. The payment is made to the widow until remarriage and to a child until 18 years of age or marriage.

The payment for disability is paid to the disabled person himself. If the disability is total, it varies from \$30 to \$95 a month, according to the size of the disabled man's family. In exceptional cases a sum not exceeding \$20 a month additional may be paid for the services of a nurse. If the disability is partial, the compensation is a percentage of the amount payable for total disability varying according to the reduction in the earning capacity of the disabled person and the size of his family. In certain specific cases of total disability, such as the loss of both hands or both feet or both eyes, or becoming helpless and permanently bedridden, the sum of \$100 a month may be paid. An important feature of this system is that it is uniform for both officers and enlisted men, and takes no account of the variations in pay of the persons covered by it. In this respect it represents a marked departure from the plan usually followed in the case of ordinary industrial compensation systems.

The compensation paid to soldiers and sailors or their families in case of the death or disability of the former is wholly a charge upon the general treasury of the Government; no contribution to its cost is made in any way by the men themselves. To supplement the provision thus made for meeting these contingencies, the Act provided for a system of insurance, to be administered by the Bureau of War-Risk Insurance, participation in which was voluntary on the part of enlisted men and commissioned officers, but to which all were encour-

aged to adhere. This system covers only death and permanent total disability. It is organized strictly according to the actuarial principles upon which private insurance companies conduct their business. The premium rates are based upon the American Experience Table of Mortality and interest at the rate of  $3\frac{1}{2}$  per cent. per annum, but no loading of the actual insurance cost thus determined is made for expenses of administration or profits. Neither is allowance made for the fact that the soldiers and sailors insured constitute what are known as extra-hazardous risks, nor was any medical examination required other than a favorable report of the Army or Navy surgeon or medical examining board at the time that the insured entered the service. It results from these provisions that not only are many of the personnel of the Army and Navy able to get insurance which, on account of the extra-hazardous character of their employment, they could not otherwise get at all, but they secure such insurance at a far cheaper rate than could possibly be obtained in a private company.

The insurance that might be taken out in this way must be at least \$1,000 and any amount over that sum, in multiples of \$500, up to not to exceed \$10,000. This insurance must be applied for within 120 days after the service was entered. The two joint resolutions of February 12, 1918, and April 2, 1918, which have been mentioned extended the period within which application for insurance had to be made by men already in the service to April 12, 1918, and made provision for the taking out of insurance by third parties within the permitted class of beneficiaries for uninsured persons taken prisoner prior to that date. Premiums might be, and usually were, paid by deductions from the pay of the insured. The only persons on whose behalf the

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insurance might be taken out were the insured themselves, their wives, children, grandchildren, parents, brothers, and sisters as defined by the War-Risk Insurance Act. In the event of death the policy is paid in 240 monthly instalments. In the event of permanent total disability it is paid so long as the recipient lives, and in case of his death within 240 months, to his beneficiary for the balance of that period. All persons in the service who had died or become totally and permanently disabled prior to February 12, 1918, were deemed to have automatically taken out insurance for an amount approximating \$4,500.

In the foregoing it has been practicable to give only the main features of this remarkable Act. Its provisions were necessarily elaborate and technical in order that all contingencies might be covered. Enough has been given, however, to show its general character and especially to make plain the complete and generous provision that has been made for compensating the men called upon for military and naval duty and their families in so far as it is practicable to do so by money payments. As a whole the Act constitutes one of the greatest pieces of social legislation ever enacted by any Government. As the Secretary of the Treasury says in his annual report for 1918: "No other Government has ever dealt so liberally with its soldiers and sailors and army and navy nurses, nor has any other Government apportioned its benefits more scientifically and equitably among those who have just claims upon the gratitude of their country."

The operations of the Bureau of War-Risk Insurance which handles all these matters have been on an enormous scale. To perform them an office force of over

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15,000 employees had to be assembled at Washington. The total of premiums received on account of marine insurance from the establishment of the system to June 30, 1918, was \$43,185,770.57, or \$6,790,922.37 more than all losses paid and claims for losses pending adjustment. For mariners' insurance total premiums of \$778,811.85 were received, which exceeded losses paid or claims awaiting proof by \$581,808.25. Expenditures on account of allotments deducted from the pay of soldiers and sailors during the period ending October 31, 1918, amounted to \$128,257,074.44, while that for allowances paid by the Government amounted to \$96,751,157.62. During the same period a total of \$1,440,227.96 was paid as compensation for death and permanent disability of officers and men in the service. This sum, of course, represents only current instalments due, since under the system as described above the compensation is paid in monthly instalments running for 20 years, or in the case of permanent total disability until the death of the insured. As regards the insurance feature of the Act, the records show that up to October 31, 1918, applications for insurance had been received from 4,090,031 soldiers and sailors, calling for a total insurance of \$35,762,516,000, or an average of \$8,744 per policy. The estimated premium income on this insurance up to October 31, 1918, was \$142,543,137. Up to this date awards had been made on 16,101 insurance claims, the present value of the future monthly payments on account of which amounted to \$122,271,500.

The magnitude of these figures can be seen when it is stated that insurance written by the Bureau of War-Risk Insurance under this Act exceeds by one-third the insurance in all the American insurance companies both here and abroad. In respect to this insurance it should

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be noted that the Act provides for the continuance of the insurance as long as the premiums are paid whether a man leaves the service or not, provided it is converted into permanent forms of insurance within five years after the end of the war. It is indeed an open question whether Congress may not provide by legislation for the Government to remain permanently in the life- and disability-insurance field by authorizing the Bureau of War-Risk Insurance to write additional insurance not only for persons in the Government employ but others as well.

## CHAPTER XVI

### CONCLUSION

Salient features of the war effort of the United States — Vastness of preparation and loyalty of popular support — Reliance upon voluntary coöperation — The licensing system as a means of control — Creation of corporations for specific administrative functions — Coördination of Government activities — The problem of reconstruction.

For years to come the action of the United States in meeting the many problems that confronted it in the prosecution of the war now so happily brought to a successful conclusion will furnish a wealth of material for the economist, the political scientist, and all others interested in public affairs. It would be a hardy writer who would attempt to summarize in a single volume, and much less in a single chapter, all the lessons to be learned from this experience. Each of the subjects to which we have devoted a chapter or a section contains in itself the material for many volumes. There are, however, certain features of the action of our Government which stand out so prominently that it is proper that the effort should be made at least to state them.

Among these first mention should be made of the large way in which the Government applied itself to its monumental task. Although the United States was slow to enter the war, once in, it spared no effort and shrank from no sacrifice to do its part in bringing the contest to a successful conclusion. It literally refused to count the cost of any action that it believed to be necessary. No nation voted such large sums with such willingness. None submitted more cheerfully to increased taxation.



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The quickness with which it adopted the principle of compulsory military service was a surprise to itself and a revelation to other nations. The alacrity with which all classes acquiesced in restrictions vitally affecting their financial interests and limiting their freedom was unequalled. The fact that they might believe some of these restrictions to be unnecessary or ill-advised made no difference in respect to the loyalty with which they were observed. The influence of this effort, apart from the results actually achieved, in bringing victory cannot be overestimated. It restored courage to our war-worn allies and convinced the enemy that further resistance was hopeless. This demonstration of the capacity of the American people to rise to an emergency is worth more than many army corps in safeguarding the Nation from any future attack.

Closely allied with this phase of our war effort was the demonstration given of the extent to which reliance could be placed upon the voluntary coöperation of the people in putting into execution policies determined upon by the Government. No other nation capitalized the patriotism of the people in quite the same way as the United States. Although the United States did not shrink from granting large powers to its officers to enforce its determinations, these powers were exercised only when and where all other means had failed. Whereas other nations built up huge bureaucracies and enforced their wishes by legal regulations, the United States contented itself with appealing to the voluntary coöperation of the people. This feature of its policy was markedly in evidence in the manner in which it handled one of the most difficult of all its problems—that of labor. In England power was conferred upon the Government to determine conditions of labor down

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to almost the last detail. In the United States these conditions were determined by agreements entered into between employers and employees. In England and other countries economy and equality of sacrifice in the consumption of food products, fuel, and other articles were secured by an elaborate rationing system administered through the use of individual ration cards. In the United States reliance was almost wholly placed on the voluntary observance by consumers of the measures of conservation found to be necessary. It is recognized, of course, that the conditions that had to be met in the United States were not so difficult as those obtaining in other countries. It is none the less worthy of note that the United States did not slavishly follow the systems of these countries, but adopted a system more suitable to the conditions to be met and to the genius of the American people.

Turning now to a consideration of the more specific features of our war effort, a study of the pages that have preceded shows that the most important devices employed by the Government in performing its activities were the use of the licensing system as a means of control, the establishment of subsidiary corporations for the performance of specific activities of an industrial, commercial, or financial character, and the use of the principle of interlocking directorates as a means of correlating the activities of the several war agencies.

The practice of licensing certain trades and professions is, of course, an old one. In the past, however, this practice has been used almost exclusively in reference to those trades and professions the practice of which offers elements of danger to public welfare, or those control of which was necessary for revenue purposes. During the war this device was used for the purpose of sub-

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jecting whole industries to Government control. The use of this device as a means of control has many advantages. In the first place it enables the Government to fix for each industry separately the conditions that must be met by any person desiring to engage in the industry and the conditions that must thereafter be observed in its prosecution. Second, it places in the hands of the Government peculiarly effective powers in enforcing compliance with such conditions through the right that it has at any time to revoke the license of any recalcitrant licensee. By this simple device the whole problem of regulation is thrown into the hands of administrative officials. The legislative branch is relieved of all responsibility except that of authorizing the establishment of the system. And no recourse has to be had to the judicial branch in enforcing administrative orders. The extent to which this device has been used and the efficiency with which it can be made to work will undoubtedly exercise a profound influence upon all future action by the Government having for its purpose the subjection of the industrial interests of the country to greater public control.

The creation by the Government of corporations as agencies for the performance of certain specific activities constitutes what is probably the most interesting feature, from the purely administrative standpoint, of the action taken by the Government for the performance of its war work. No less than six such corporations were created — the War Finance Corporation, the Emergency Fleet Corporation, the Grain Corporation, the Sugar Equalization Board, the Russian Bureau Incorporated, and the Housing Corporation. The advantages of making use of bodies of this character have been incidentally commented upon, but may be more specifically pointed

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out here. The entrusting of an activity to a distinct corporation not only permits, but insures, its definite segregation, administratively and financially, from all other activities. This means that the enterprise will have its own property, revenues, and expenditures, its own accounting and reporting system, and its own system of administration generally. The importance of this when the undertaking is of a character producing a revenue or having a tangible product cannot be overestimated. Such an undertaking should have a system of accounts and reports in all respects analogous to that possessed by any private corporation. This means that it should have capital accounts, property accounts, and a cost-keeping system; that it should take account of such elements as depreciation; that it should make use of a balance sheet; that it should, in a word, keep the same records of its financial transactions as are kept by any well organized and well managed private concern. It is not necessary that the Government should keep such accounts for its ordinary administrative services. If financial records of this character are to be secured regarding any activity, it is essential therefore that the service having it in charge should have financial autonomy. Other advantages of the corporate form of organization are that the contractual relations with outside parties can be handled to better advantage; that the service can be given its own board of directors specially chosen with reference to their technical competence; and finally that the service can be more easily kept outside of the field of partisan political pressure and its affairs conducted upon a purely business basis. We have made special mention of this device since it not only represents an interesting departure from prior practice, but may easily

## CONCLUSION

prove to be a form of organization that will be largely employed in the future.<sup>1</sup>

In our introductory chapter attention was called to the importance of the question of general administration and the failure of the Council of National Defense to perform this function. Although the Government had to create a large number of separate agencies for the performance of its war work these agencies had to work in the closest coöperation with each other. This coördination of effort was in large part secured through the adoption of the principle of giving representation on the several boards of representatives of other boards and administrations. Mention in this connection should also be made of the fact that the Council of National Defense adopted the practice of holding weekly meetings at which the heads of the more important war agencies were entitled to be present, and the President brought into existence what was in effect a special war cabinet by holding weekly meetings with the heads of the important war agencies at which matters of general interest were discussed and policies affecting the services generally were adopted.

The greater portion of the foregoing chapters was written while the war was in full progress. Consideration was thus perforce centered upon the manner in which the needs developed by the war were being

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<sup>1</sup> By a coincidence the writer of the present volume wrote a paper advocating the formation of corporations of this character by the National Government before action in this direction had been inaugurated. This paper, which is entitled "The National Government as a Holding Corporation: the Question of Subsidiary Budgets," was published in the *Political Science Quarterly*, vol. xxxii, No. 4, December, 1917, and republished as a chapter in the writer's volume *The Problem of a National Budget* (Studies in Administration, Institute for Government Research, 1918).

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handled. The war is now ended and the work of reconstruction confronts us. This work has two phases — that of the restoration of the industrial life of the community to its normal, peace basis, and that of the reorganization of the Government itself. It is unnecessary to point out the gravity of the problems that are presented by both phases of this question. In scarcely a single respect are the people willing to return to conditions precisely as they were at the outbreak of the war. The great problem of the relation of the Government to industry, trade, the railroads, shipping, labor, education, science, and indeed every phase of social activity presents itself in a new form as the result of our war experience. Especially will the fact of our more definite entrance into the field of world politics affect many of our domestic problems. The questions here raised are ones which can be adequately treated only in works dealing with special phases of the problem of reconstruction, such as is the purpose of the other volumes of the series in which the present volume appears.



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